WATER RESOURCES DEVELOPMENT CRITERIA

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON IRRIGATION AND RECLAMATION

OF THE

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH CONGRESS

SECOND SESSION

ON

H. R. 7362

TO AMEND PUBLIC LAW NO. 398, 76TH CONGRESS, TO ESTABLISH CRITERIA FOR UTILIZATION BY THE SECRETARY OF THE INTERIOR IN DETERMINING THE FEASIBILITY OF CONSTRUCTING OR MODIFYING ANY RECLAMATION PROJECT, AND FOR OTHER PURPOSES

MARCH 27, 28, AND MAY 29, 1958

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WATER RESOURCES DEVELOPMENT CRITERIA

THURSDAY, MARCH 27, 1958

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON IRRIGATION AND RECLAMATION
OF THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, D. C.

The subcommittee met, pursuant to call, at 10:05 a. m., in the committee room, New House Office Building, Hon. Wayne N. Aspinall, chairman of the subcommittee, presiding.

Mr. ASPINALL. The Subcommittee on Irrigation and Reclamation of the House Committee on Interior and Insular Affairs will now be in session for the consideration of and taking of testimony on H. R. 7362, a bill by our colleague, the gentleman from Arkansas, Mr. Trimble, to amend Public Law 398, 76th Congress, to establish criteria for utilization by the Secretary of the Interior in determining the feasibility of constructing or modifying any reclamation project, and for other purposes.

Unless there is an objection, the bill, H. R. 7362, together with the departmental report from the Secretary of the Army, under date of March 26, 1958, and signed by the Honorable Wilber M. Brucker, Secretary of the Army, which report is not a favorable report, may I suggest, together with a report from the Secretary of the Interior under date of June 28, 1957, signed by the Honorable Roger Ernst, Assistant Secretary of the Interior, which report also is an unfavorable report on the legislaiton, will be made a part of the record at this point.

(H. R. 7362 and the departmental reports follow:)

[H. R. 7362, 85th Cong., 1st sess.]

A BILL To amend Public Law Numbered 398, Seventy-sixth Congress, to establish criteria for utilization by the Secretary of the Interior in determining the feasibility of constructing or modifying any reclamation project, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act entitled "An Act authorizing construction of water conservation and utilization projects in the Great Plains and arid and semiarid areas of the United States", approved August 11, 1939 (16 U. S. C., secs. 590y, 590z–10), is amended by adding at the end thereof the following:

"SEC. 13. (a) Whenever the Secretary of the Interior determines the costs to be allocated under this or any other Act to features and facilities of a reclamation project or other project on a river, stream, or lake, the following rules shall obtain:

"(1) Except as provided in paragraph (3), the cost of the features and facilities of the project which relate to the principal purpose of the project shall be determined, and shall be allocated to the principal purpose of the project.

"(2) The cost of features and facilities of the project which relate to other purposes, including watershed management, domestic, municipal, or industrial water supply, recreation development, fish and wildlife development, pollution

control or abatement, downstream benefits, agriculture, and any other benefit (except as provided in paragraph (3)), shall be determined, and shall be equitably allocated among such purposes.

"(3) In the case of projects having irrigation as one of their primary purposes, the cost of features and facilities of the project which relate to electric power shall be determined and allocated to electric power on a basis as near as may be to the basis on which costs relating to irrigation are determined and allocated. In the case of all other projects, the cost of features and facilities of the project which relate to electric power shall be the amount obtained by subtracting (A) the cost of construction or modification of the project without features and facilities relating to electric power, from (B) the cost of construction or modification of the project with features and facilities relating to electric power. The amount determined under the preceding sentence shall be allocated to the cost of the features and facilities of the project which relate to electric power.

"(b) Whenever the Secretary of the Interior determines the benefits to be allocated under this or any other Act to the various purposes served by a reclamation project or any other project on a river, stream, or lake, the following rules shall obtain:

"(1) Benefits attributable to the project shall be determined by taking into account the economic and other development of the area which may be expected if the project is adopted. The calculation of benefits attributable to the unit or project shall be based upon full development and utilization of the unit or project and such other units or projects of the comprehensive plan as may be reasonably expected to develop in the future. The monetary value of any benefit attributable to the unit or project shall be based not only upon present economic values, but also upon projected economic growth anticipated to occur during a reasonably foreseeable period in the future.

"(2) Benefits from the construction or modification of the project which relate to each of the various purposes served by the project shall be determined and allocated to each such purpose.

"(3) Benefits from the construction or modification of the project which relate primarily to electric power shall be determined and allocated to electric power, and shall be equal to whichever is the lower, (A) the cost of electric power from the cheapest alternative source of such power that is available, or can reasonably be expected to develop in the area in the absence of the electric power features of the project, to meet the same power needs (including in such cost any taxes that will be paid, or payments in lieu of taxes that will be made by such alternative source, and also including interest charges on capital at the rate it will be paid by such alternative source), or (B) the value of such power to users, computed as the highest price such users would pay for such power in those instances where the cost of electric power from the cheapest alternative source of such power that is available is prohibitive. In no event shall an alternative source of electric power be considered as available, or as expected to develop, unless there is a reasonable likelihood that such alternative source of power will actually be available or develop; nor shall a Federal source of electric power be considered as available or expected to develop unless such Federal source of electric power is authorized by law.

"(c) (1) Whenever the Secretary of the Interior determines the rates to be charged for electric power from any project on a river, stream, or lake, such rates shall be established so as to recover, through annual depreciation charges, the costs allocated to the features and facilities of the project, other than land and land rights, which relate to electric power, plus interest on remaining investment thereon, the costs without interest allocated to the features and facilities of the project which relate to irrigation but which are beyond the ability of the irrigators to pay for, over the useful life of the project or a period of one hundred years, whichever is the shorter, plus the other annual operating costs of such features and facilities. The rate of interest shall be equal to the average rate of interest (as determined by the Secretary of the Treasury) borne by all marketable interest-bearing obligations of the United States forming a part of the public debt and issued by the United States during the fifteen fiscal years immediately preceding the fiscal year in which funds are first appropriated for the construction or modification of such features or facilities; except that where such average rate is not a multiple of one-eighth of 1 per centum, such rate of interest shall be the multiple of one-eighth of 1 per centum next lower than such average rate.

"(2) As soon as is practicable after commercial power production has begun (subsequent to the date of enactment of this paragraph) at any project following construction or modification thereof, the Secretary of the Interior shall determine the costs to be allocated to each of the purposes served by the project, the proposed amortization period and justification therefor, and shall report thereon to the Congress. Until such report has been transmitted to the Congress, rates charged for electric power from the features or facilities constructed or modified shall not exceed an amount sufficient to recover annually 5 per centum of the Federal investment in the powerhouse and substation, and in generating and other power equipment in operation.

"SEC. 14. (a) Except as provided in subsection (b), the provisions of section 13 of this Act relating to the determination and allocation of costs and benefits of projects, and features and facilities thereof, and the determination of rates to be charged for electric power, shall govern the determination and allocation of costs and benefits, and the determination of rates to be charged for electric power, in the case of all navigation, flood control, multiple purpose, or other projects (whether constructed before or after the date of enactment of this section) on rivers, streams, or lakes, where such projects are under the jurisdiction of any department (including the Department of the Interior), agency, or independent establishment in the executive branch of the Government of the United States.

"(b) Section 13 and subsection (a) of this section shall not apply to any unit or project (1) developed or to be developed pursuant to the Tennessee Valley Authority Act of 1933, or (2) for which the allocation of costs has been previously determined by Act of Congress.

"SEC. 15. Whereas the future strength and prosperity of the United States depends directly upon conservation, through the efficient development and wise use of the water and land resources of the Nation, it is declared to be the policy of the Congress that:

"(1) The river basin shall be deemed a single resource which, in whole or in part, or in combination with other basins or portions of basins as provided for in sections 13 through 17 of this Act, shall constitute the basis for the development, utilization, and conservation of water resources by the United States.

"(2) In order to provide a broader base for an expanding national economy, development of water resources by the United States shall be based upon adequate and reliable data and shall be so planned and prosecuted on a comprehensive multiple-purpose basis as to achieve maximum sustained usefulness of resources for all beneficial purposes which may be served consistently with sections 13 through 17 of this Act.

"SEC. 16. (a) The entire basin of a river, stream, or lake, or any integral part thereof, shall be considered as a whole for the purpose of formulating comprehensive plans and for the purpose of determining justification and making recommendations to Congress for authorization and appropriations for the development thereof.

"(b) All purposes contributing benefits to the well-being of society, including flood control, conservation storage, navigation, electric power, reclamation, domestic, municipal, and industrial water supply, recreation, fish and wildlife development, pollution control or abatement, watershed management, salinity control, downstream benefits, agriculture and any others, shall be included in reports and recommendations to the Congress made with respect to any unit or project. Such reports and recommendations shall include the recommendations of such agency or agencies as will market the products and services of the unit or project, shall show the total cost of the project or unit (including primary, secondary, and associated costs), shall show the total benefits of the unit or project (including tangible and intangible, primary and secondary benefits), shall show the allocations of unit or project costs to each of the purposes proposed to be served, and shall show the estimated life expectancy of the unit or project. All benefits, to the extent possible, shall be expressed in dollar values, and all benefits not expressed in dollar value shall be described. The policy is hereby established that when the total benefits, tangible and intangible, primary and secondary, are determined to exceed the total costs of a unit or project, a favorable recommendation for authorization shall be made by the agency making the study. It shall report its findings to the Congress.

(c) When a project or unit is recommended pursuant to subsection (b), any unit, facility, or feature whose costs will exceed the benefits to be derived therefrom may be included in such recommendations if the inclusion of such unit, feature, or facility will not reduce the total benefits below the total cost of the project or unit.

"SEC. 17. As used in sections 13 through 17 of this Act—

"(1) The term 'unit' means a complete development at one location which may consist of one or more facilities.

"(2) The term 'project' means all of the 'units' and facilities in the development of a river basin or an integral part thereof.

"(3) The term 'primary benefits' means the value of the immediate products or services resulting from the measures for which project costs and associated costs are incurred.

"(4) The term 'secondary benefits' means the values over and above the value of the immediate products or services of a project as a result of activities induced from the project.

"(5) The term 'tangible benefits' means benefits measurable in monetary terms.

"(6) The term 'intangible benefits' means benefits which are not measurable in monetary terms.

"(7) The term 'project costs' means the monetary costs of goods and services used for the establishment, maintenance, and operation of a project.

"(8) The term 'associated costs' means the monetary costs of goods and services needed, over and above those included in the project costs, to make the immediate products or services of a project available for use or sale.

"(9) The term 'secondary costs' means the monetary costs of any goods and services (other than project costs and associated costs) which are used as a result of a project.

"(10) The term 'principal purpose' means the purpose served by the unit or project in the absence of which development of the unit or project would not normally be undertaken by the Federal Government; however, where a unit or project is part of a plan embodying an integrated river basin development, the principal purpose of the unit or project shall be the same as the principal purpose of the comprehensive plan.

"(11) The term 'comprehensive plan' means a plan for conserving, developing, or improving the water resources of a river basin and its watershed to obtain the optimum public benefit from such resources for all beneficial public uses during the economic service life of existing and proposed projects, in which plan no projects shall result in an unnecessary limitation upon the multiple purpose use of such water resources, taking into account other possible projects within the river basin for the development of water power and other purposes."

DEPARTMENT OF DEFENSE,
Washington, D. C., March 26, 1958.

HON. CLAIR ENGLE,
Chairman, Committee on Interior and Insular Affairs,
House of Representatives.

DEAR MR. CHAIRMAN: Reference is made to your request to the Secretary of Defense for the views of the Department of Defense with respect to H. R. 7362, 85th Congress, a bill to amend Public Law 398, 76th Congress, to establish criteria for utilization by the Secretary of the Interior in determining the feasibility of constructing or modifying any reclamation project, and for other purposes. The Secretary of Defense has assigned to the Department of the Army the responsibility for the preparation of a report.

This proposed legislation would constitute an amendment to an act entitled "An act authorizing construction of water conservation and utilization of projects in the Great Plains and arid and semiarid areas of the United States," approved August 11, 1939, popularly referred to as the Wheeler-Case Act. H. R. 7362 would amend that act to authorize and direct the Secretary of the Interior to follow prescribed methods in allocating costs of multiple-purpose projects, in determining and allocating benefits, and in establishing rates to be charged for power. The bill would also establish it as the policy of the Congress that resources should be developed through comprehensive and multiple-purpose plans encompassing entire river basins, that all purposes and all resources should be considered, and that all benefits, including secondary and intangible benefits, should be taken into account in the justification of projects; also, that portions of a plan for which costs would exceed benefits should be recommended for construction if other portions of the plan would produce excess benefits sufficient to cover the losses which would result from inclusion of unjustified features.

Although H. R. 7362 proposes to amend and modify the authorities of the Secretary of the Interior, it contains language which would make the policies and procedures established for the Wheeler-Case program applicable to all other water projects, including those of the Department of the Army.

The Department of the Army does not wish to comment upon those portions of H. R. 7362 which apply to the Secretary of the Interior. However, this department does not favor amendment of its existing authorities in this indirect manner. Moreover, some of the modifications which this bill would make in the existing authorities of this department would not be in accord with the reports of the Presidential Advisory Committee on Water Resources Policy and other commissions which have made studies of the water resources policy of the United States. It is suggested, therefore, that H. R. 7362 be amended by deleting from it all of the language which would become section 14 of Public Law 398, and by making such other changes as may be necessary to make it clear that the bill would apply only to projects constructed under authority of the act of August 11, 1939, and other projects under the jurisdiction of the Secretary of the Interior.

Inasmuch as the committee has requested that the report be expedited, it is submitted without a determination by the Bureau of the Budget as to whether or not it conforms to the program of the President. As soon as such advice is received it will be forwarded to your committee.

Sincerely yours,

WILBER M. BRUCKER,
Secretary of the Army.

DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D. C., June 28, 1957.

Hon. CLAIR ENGLE,
Chairman, Committee on Interior and Insular Affairs,
House of Representatives, Washington, D. C.

DEAR MR. ENGLE: A report has been requested from this Department on H. R. 7362, a bill "To amend Public Law 398, 76th Congress, to establish criteria for utilization by the Secretary of the Interior in determining the feasibility of constructing or modifying any reclamation project, and for other purposes."

We recommend that H. R. 7362 be not enacted.

H. R. 7362 proposes to amend the act of August 11, 1939 (16 U. S. C., secs. 590y *et seq.*), by adding to it a series of sections relating to the planning of water resource projects and to cost allocations and ratemaking in connection with such projects. The act of August 11, 1939, as amended, has lain dormant for a number of years so far as it provides authority for the construction of projects, but H. R. 7362 is so drawn that the amendments which it proposes attaching to this act would be applicable also to projects under the Federal reclamation laws and other acts of Congress. H. R. 7362 is very similar to H. R. 965 which is now pending before the Committee on Public Works.

We are in full agreement with the desirability of having a sound national water-resources policy set forth for guiding the work of the various agencies in planning water resources development projects, but in our opinion various of the sections of the proposed act contain provisions that would not contribute to such a sound national policy and omit other provisions that would be desirable.

In section 13, for instance, general procedures for cost allocation are set forth. These procedures would not result in the various purposes of a multiple-purpose project sharing equitably in the savings resulting from being a part of such a project. The sharing of savings as an objective of cost allocation should be included in any adopted national water-resources policy. We believe that the allocation of only incremental costs to power would not be an equitable basis for the allocation of costs.

The same section sets forth certain provisions for the establishment of rates to be charged for electric power. In our opinion, the rates charged for power produced by Federal projects should be determined in accordance with a general policy for the establishment of charges for project services. Such a policy does not appear in this bill but should be an integral part of any adopted national water-resources policy. In the absence of a policy statement on charges for project services, we shall not comment in detail on the ratemaking provisions of section 13. We believe, however, that the proposed payout period of 100 years for power is excessive and that it should be limited to 50 years.

Section 14 makes the provisions of the bill applicable to projects constructed prior to its enactment. As a general rule, such retroactive provisions are not desirable; however, the merits of including a retroactive provision in this bill could be judged only after it is modified with respect to project formulation, cost allocations, and charges for project services.

Section 16 (c) proposes that units or features of projects may be included even though their added costs would be greater than the added benefits provided total project benefits would still be greater than total costs. The inclusion of such units or features in a project would violate the basic principle that a project or program should be so designed as to include those separable segments or increments of scale of development that will provide benefits at least equal to the costs of their inclusion. The inclusion of uneconomic increments in a project would not be in the public interest.

In addition to the above suggestions it is noted that section 16 (b), for all practical purposes, directs an agency to make a favorable recommendation for authorization whenever a project is found to have benefits in excess of costs. In our opinion such a provision in a water-resources policy act would be undesirable because it would place too much reliance on the relationship between benefits and costs and would preclude the agency, or the executive branch of the Government, from giving consideration to other matters of possible overriding importance. For example, if a project for which a proposed plan has been developed was found to have no local support even though the prospective beneficiaries would be largely local, it obviously should not be recommended for authorization. It is to prevent situations of this type that we believe that the agencies of the executive branch of the Government should be free to prepare their recommendations based on their best judgment of all factors affecting the situation.

Because of the extensive changes necessary in the proposed bill before it could be considered acceptable as a statement of national water-resources policy, it is our recommendation that it not be enacted. In view of this recommendation, we have not commented on certain other parts of the bill which we believe are ambiguous. If the committee wishes, however, we will supplement these general comments with more detail.

The Bureau of the Budget has advised that there would be no objection to the submission of this report to your committee.

Sincerely yours,

ROGER ERNST,
Assistant Secretary of the Interior.

Mr. ASPINALL. May the Chair make a short statement.

The legislation before us today involves the matter of policies and procedures to be followed in evaluating water resources development and control projects. The procedure would be applicable to all Federal agencies except the Tennessee Valley Authority. These procedures relate to the allocation of project costs, the determination of project benefits and the determination of rates to be charged for electric power.

There are not presently in general law, relating either to reclamation or to flood control and rivers and harbors projects, provisions establishing a policy with respect to the evaluation of such projects. As the committee knows, these matters of cost allocation, benefits, and repayment are matters involved in the so-called Budget Circular A–47, a directive from the Bureau of the Budget to all Federal agencies. In other words, the policies and procedures presently being followed by the executive agencies in the field of project evaluation are by executive direction rather than by congressional mandate.

Therefore, without reference to the merits of the specific provisions set out in this bill or the way the bill is put together, I believe we all will agree that congressional direction in this field of evaluating projects for developing our Nation's water resources is needed. With that in mind, I am sure we shall listen with interest to the presentations to be made today and tomorrow on this legislation.

The Chair wishes to follow the following procedure this morning: A short statement, with a unanimous consent request from our colleague, Mr. Morris of Oklahoma; a statement by Mr. Trimble, the gentleman who is the sponsor of the bill; then calling a representative of the Secretary of the Interior and a representative of the Department of the Army for a presentation which will not take over 15 minutes, with 15 minutes added allotment of time for questioning this morning, keeping in mind that these gentlemen can be brought back at any time; then going to the witnesses from out of town.

Is there any objection to that procedure?

Hearing no objection, it is so ordered.

We will have to go into session at 11 or soon thereafter this morning, so we will have to be on our way.

At this time I call the gentleman from Oklahoma to the witness table for a unanimous consent request.

STATEMENT OF HON. TOBY MORRIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. MORRIS. Mr. Chairman and members of the committee.

I want to express my sincere appreciation to the author of this bill, my distinguished and able colleague, Jim Trimble of Arkansas, for his yielding to me to make this request, and also to you, as chairman, and members of the committee; and my request is that I be permitted to file a written statement.

I do approve of this bill. I especially approve of the feature that in each instance the Congress itself should determine the formula, because of the different areas in our country, the runoff and so on, in regard to water. I would like to see, if possible, an extension of the payback period.

I certainly approve this bill, the substance of this bill. There might be some amendments in order, of course.

I want to express my sincere appreciation to the distinguished gentleman for having filed the bill and the work he has done.

In view of the fact that there are so many witnesses to be heard, and in view of the fact I need to go on to my own Committee on Armed Services, I must leave, but I ask permission of the committee to file a written statement setting out my views in full.

Mr. ASPINALL. Thank you very much, Mr. Morris.

Unless there is an objection, the statement will be placed in the record immediately following the statement of the gentleman from Arkansas, Mr. Trimble.

Hearing no objection, it is so ordered. (See p. 10.)

Mr. MORRIS. Thank you.

Mr. ASPINALL. May I say, Mr. Trimble, the committee is particularly pleased to have you before it. We shall listen with interest to what you have to say. You may proceed.

STATEMENT OF HON. JAMES W. TRIMBLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS

Mr. TRIMBLE. Thank you, Mr. Chairman and members of the committee.

In view of the fact that the House convenes an hour earlier and in view of the number of witnesses to be heard, I will try to confine my remarks to just as compact a space as possible.

The introduction of this bill grew out of my distress over the situation that I see in our country. I think I can see that within the next 25 years, if not sooner, one of the great problems of this land of ours will be water, or rather lack of it.

I was astonished 2 or 3 years ago to hear the engineers and the soil conservation people testify that the water level in this land is receding at the rate of about a foot each year, on the average.

In other words, should I go back to the old farm where I grew up and drill for living water, as my father did, I would have to go at least on the average of 25 feet deeper to get enough water to sustain the family and the stock than he did.

We are growing in population, we are growing industrially; so I think that every drop of water that falls should be conserved, and in conservation we should take advantage of every other feasible angle, if it is possible.

Now, the next thing that concerns me: When a man that is as stable as Senator Ellender, of Louisiana, makes a trip to Russia and comes back and tells us what he saw we know that he is not talking just to hear himself talk—that Russia is developing her water resources to the full; that she is coming out of there with a power program that will make our power program not only third but maybe fifth; and that this Nation, if it is sustained, must not only remain strong defensively and spiritually, but it must remain strong physically, and the power program must be carried along so that every one of these projects that is feasible will put out power as cheaply as possible.

I have not made a study; I do not know what the situation is in the other sections. But in my own district, in our rural electric cooperatives, there are less than three users to the mile, on the average, and we are losing population every day. That puts an extra burden upon these cooperatives. If, in addition to the loss of customers, they must assume a higher power cost, it will practically put them out of business.

So in view of those things I introduced this legislation to have for its purpose mainly bringing control of river development back to the Congress instead of leaving it in the executive agency.

I quarrel with no particular administration. I quarrel with the proposition that this is a legislative matter that must be retained in legislative hands. Otherwise the people of this country lose control.

Now, it is pretty difficult to have to go home and run for election every 2 years, but I think that is wise, and I would not change it if I could, because it gives the people a chance to speak each 2 years and lets them control.

Now, this legislation is technical. I shall not attempt to go into all the technical phases of it.

When I drew the legislation with the help of many others, I envisioned that we develop our river programs as a unit, as a whole, to make use of every drop of water that is there in conjunction with the upstream projects, the watershed program, because I felt that every muddy rivulet in this land is an indictment of all of us, those of us who serve in the Congress now and those who served in the Congress before us. We have failed in the complete performance of our duties.

Now, there is concern here from members from the reclamation States. As for my part, I do not want to do a thing that will injure the program in the reclamation States, and if there is anything in this bill that does do injury, so far as I am personally concerned I hope it is corrected. But I do want the Congess to retain control of the formula that sets up the power cost allocations in our river programs, because otherwise—for instance, I do not want to be bound by the exact figures, but at Bull Shoals, for instance, in my district, which was built some years ago, my recollection is that it cost 23 percent of that project's total cost to add power to it. But in the formula that was enunciated in 1952, the A–47 that we are fussing about here, 76 percent of the cost of that project was picked up and added to the original to make the cost of the power come out to where it is burdensome not only to the private power companies but to the cooperatives as well, and the municipalities, and all that, and that should not be.

It is all right with me to require that power that is produced at that dam pay every penny that the dam cost, but not use it in the formulation of the rate of the power that comes out of the turbines.

In order not to take up too much time and get some of these other witnesses on the stand, I want to just read briefly here some things that I have studied out in this legislation as I see it.

Section 13 (a) provides where projects have irrigation features as one of their primary purposes the costs related to electric power facilities shall be allocated to power on the same basis as the cost of irrigation facilities are allocated to irrigation.

Section 13 (c) contains provision whereby electric rates should be established sufficient to pay all costs, plus the costs without interest allocated to irrigation facilities which are beyond the ability of the irrigators to pay, over the useful life of the project or 100 years, plus the annual operating expenses of such facilities.

Section 17 contains a definition of terms. It should be noted that the term "unit" refers to the development at one location, for instance, as Hungry Horse Dam or Hells Canyon Dam.

The term "project" means the whole river unit, as, for instance, the Arkansas River or the White River in our State. The project refers to the whole unit.

Section 13 (a) provides that, first, the costs which relate to the principal purpose shall be allocated to that purpose; next, the cost relating to other features, except power, shall be so allocated; finally, the allocation of power costs on an incremental basis is provided for except where power is a principal purpose. And then it goes on to take care of that.

Section 13 (b) provides for a realistic determination of benefits by taking into account the development brought about by the unit of the project. In other words, it enables the whole business to be taken into consideration.

Section 13 (c) provides for the establishment of rates to reimburse the Federal Treasury for its investment in the power facilities. The provisions in this section are the same as those now practiced except that the amortization period is fixed at the useful life of the unit or project or 100 years, whichever is the shorter.

Section 14 provides that applies except for the Tennessee Valley Authority. That was a Federal agency we left out.

Section 15 provides it to be the policy of the Congress to consider the entire river basin, and that is what I mentioned just a moment ago.

Section 16 provides for the entire basin of a river, stream, or lake to be considered as a whole for planning and enables the Corps of Engineers to go in and take into consideration their whole project.

Mr. Chairman and gentlemen of the committee, roughly that is the purpose of the bill. There are others who will follow me who will go into more detail. I do not want to take up the time of the witnesses who have traveled hundreds and, some of them, thousands of miles to be here to testify.

But, roughly speaking, this is to bring the control of our water-resource development program back to the Congress of the United States and sets out certain criteria to control the Corps of Engineers, who have done a wonderful job, and the reclamation people, who have done a wonderful job, in the development of our water resources.

I thank you very much.

Mr. ASPINALL. Thank you, Mr. Trimble.

Are there any questions anybody wants to ask at this time?

Thank you very much.

Does the gentleman from Oklahoma wish to make a statement at this time?

Mr. EDMONDSON. I would like to ask unanimous consent to file a statement giving my comments upon this bill and the reasons why I think it is most important legislation.

Mr. ASPINALL. Unless there is objection, the statement from the gentleman from Oklahoma, Mr. Edmondson, will be received and made a part of the record at this place in the hearing.

Hearing no objection, it is so ordered.

(Mr. Morris' and Mr. Edmondson's statements follow:)

STATEMENT OF HON. TOBY MORRIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. Chairman and members of the committee, I want you to know that I certainly appreciate the opportunity you have afforded me to appear before your committee in behalf of H. R. 7362, generally known as the Trimble bill.

I wish to say first that I'm sure that you will agree with me that any bill introduced by our distinguished colleague from Arkansas, Mr. James W. Trimble, should be given most careful and earnest consideration by the committee to which it is assigned and particularly one that he has studied and worked on as long and diligently as he has this one; for the reason that we all know him as a most able, conscientious, and experienced Member of Congress.

I have had the opportunity to read the statements of several witnesses, to wit: State Senator and manager of the Cimarron Electric Cooperative, Kingfisher, Okla., R. C. Boecher; Howard G. Crocker of Woodward, Okla., chairman of the legislative committee of the Oklahoma Statewide Electric Cooperative; Doyle Pope, president of Western Farmers Electric Cooperative, Anadarko, Okla.; Cecil I. Neely, manager of the Northfork Electric Co-op, Sayre, Okla.; H. M. Dilion, Okmulgee, Okla., manager of the East Central Oklahoma Electric Cooperative, and the joint statement of the Oklahoma Electric Cooperative, Norman, Okla., and since they have covered this subject matter so well, and in considerable detail, I feel that my statement should be brief as I do agree in substance with them, and a lengthy statement would of necessity be largely a repetition of what they have had to say.

I just wish to emphasize a few points.

1. It seems to me to be wise and fundamental and in the best interests of true economy, practicality, commonsense, and the general welfare of our entire country that Congress should determine and establish proper allocations of costs as to each project it approves for the reasons that I feel it the prerogative and

duty of Congress to do so and in addition thereto no changes in the formula and program of allocation of costs and repayment should be made, it seems to me, without giving those affected fair and reasonable hearings. I particularly wish to point out that contracts for the sale of power generated by Government multipurpose dams, and distributed, should be firm and dependable as to rates and other features for a definite period of time. This I understand is not true at present.

2. Also a fairer, more reasonable, equitable, and practical payout period would in my judgment be established by Congress as to those projects justifying a longer payout period.

3. In addition thereto the section of the country involved taking into consideration the average annual water runoff and the various benefits such as primary, secondary, tangible, and intangible, relative to such section would be more carefully and equitably considered, as would the costs of the project including associated, secondary, and incremental costs.

As I read and understand the Trimble bill, these features I have mentioned are in it, and are of great importance to those directly affected and to our whole people. I hope this committee in its wisdom will feel it proper to favorably report this bill.

STATEMENT OF HON. ED EDMONDSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. Chairman, the principal reason why we need the Trimble bill today is that events have made it clear we must have some major policy changes written into law if we are to continue the dynamic development of America's water resources.

This country cannot afford to rest on its oars and to adopt a "let George do it" philosophy with regard to our most precious natural resources and their conservation and development.

The Trimble bill not only reasserts in positive terms the intent of Congress to develop fully our great national potential in these fields, but it also provides the legislative tools to do the job—in terms of costs allocations, in terms of repayment, and in terms of basinwide evaluations and planning that put into true national focus the great undertakings still before us.

There is not a river basin in the country that will not benefit from passage of this bill.

There is not an American who will not benefit, in terms of better national stewardship of our resources that will follow.

I hope the bill will be reported favorably and passed.

Mr. ASPINALL. Under our unanimous consent agreement previously entered into, the Chair will ask the representative of the Department of the Interior, Mr. Bennett, to make his presentation at this time. The Chair will indicate when the time is up so the representative from the Defense Department can be heard.

Dr. MILLER. Mr. Chairman, will we have an opportunity to question the Department?

Mr. ASPINALL. In the interest of time for today and tomorrow, Dr. Miller, we will listen to the Department for 15 minutes and we are going to question for 15 minutes, and they will be back later on.

Dr. MILLER. I am glad to know that because this is very important legislation, and I hoped we were not going to just push it through quickly.

Mr. ASPINALL. I think the gentleman from Nebraska knows the chairman better than that.

Mr. EDMONDSON. May I ask a question? Are hearings to be held tomorrow on this?

Mr. ASPINALL. Oh, yes.

All right, Mr. Bennett.

STATEMENT OF JOHN B. BENNETT, DIRECTOR, TECHNICAL REVIEW STAFF, DEPARTMENT OF THE INTERIOR

Mr. BENNETT. Mr. Chairman and members of the committee, the Department of the Interior is in full agreement with the desirability of having a sound national water resources policy set forth for guiding its work in planning water resources development projects. This view was set forth in the Department's comments on H. R. 7362 dated June 28, 1957. In those comments, however, it was pointed out that in our opinion the proposed act contains various provisions that would not contribute to such a sound national policy as well as other provisions that are not entirely clear.

Section 13 (a), paragraph (1) on page 2 of the bill relating to the allocation of costs by the Secretary of the Interior is somewhat unclear since it does not specify whether "the cost of features * * * which relate to the principal purpose * * *" includes a share of the cost of joint-use features or is limited to the specific or separable cost of such purpose. The same ambiguity is found in paragraph (2). Thus, these paragraphs do not indicate how the joint costs of such multiple-purpose projects should be allocated or distributed.

Paragraph (3) provides that on projects with irrigation, the allocation of costs to electric power shall be determined on a basis similar to the allocation made to irrigation. Under the current practices of the Department this would be by the separable cost-remaining benefits method of allocation. Paragraph (3) further provides that in the case of projects without irrigation, the costs allocated to power shall be essentially the difference in the cost of the project with and without electric power, that is, the incremental cost.

I want to point out that in deciding whether electric power or any other purpose should be included in a proposed project the expected benefits must only exceed the added or incremental costs of that purpose.

Such an analysis, however, does not indicate the appropriate method of allocation of costs to power or of all the costs of the proposed project even though each purpose is tested for inclusion on such a basis. In fact, there are cases where if only the incremental costs were allocated to power the remaining costs for other purposes would exceed the benefits and the project would not be feasible.

The inclusion of several functions in one multiple-purpose project frequently makes it possible to obtain the benefits from each purpose at a cost less than the aggregate cost of a series of single-purpose projects. Thus, a single-purpose project may not be economically justified, while a multiple-purpose project including such a purpose may be well justified.

Should only the incremental costs be allocated to one purpose, the other purposes do not share in the savings made possible by multiple-purpose development, since they must bear the entire cost of the joint-use features, such as the dam and reservoir. It is also to be noted that in the case of an incremental allocation no purpose should be allocated costs in excess of benefits.

For example, it is our understanding that the navigation benefits from a single-purpose navigation project at the McNary site on the Columbia River would have been only one-sixth of the cost of such a

project. In other words, navigation was justified only in a multiple-purpose navigation and power development.

It is understood further that a single-purpose power project at the Narrows Dam site in Arkansas would not have been economically justified, but the inclusion of power in this dam was justified as the result of the savings made possible by multiple-purpose flood-control and power development.

The principles and procedures that have been adopted by the Department for the allocation of cost of multiple-purpose projects are based on the interagency working agreement of March 12, 1954, concurred in by Interior, the Army Corps of Engineers, and the Federal Power Commission. I believe that copies of that agreement are in the files of this committee.

This allocation method was first recommended for general application to Federal projects by a Federal interagency group in 1950, based on studies originating in 1946. The method is substantially the same as that employed by the Tennessee Valley Authority on its projects.

The TVA allocation study of 1945 was the subject of a review and approval by the Federal Power Commission at the request of the Senate Committee on Public Works in 1949.

The separable costs-remaining-benefits method was also favored by the House Subcommittee To Study Civil Works in 1952, which recommended that each purpose of a project share equitably in the savings resulting from multiple-purpose development and also that the allocation be initiated by the construction agency.

It is the method also which has been endorsed by the Presidential Advisory Committee on Water Resources Policy in its report transmitted by the President to the Congress on January 17, 1956.

Under this method of cost allocation, there are first assigned to each purpose or function of a multiple-purpose project, such as flood control or power, those separable costs which are known to have been incurred exclusively for each function and which could have been eliminated from the total project cost had that function been excluded from the development; and second, there are apportioned the remaining costs of the jointly used dam and reservoir among the several functions of the project in proportion to the difference between the assigned separable costs and the lesser of the two factors. These factors are the alternative cost of a single-purpose project for each function and the value of the benefits of each function.

In this way, each function served by a multiple-purpose project shares equitably in the savings resulting from multiple-purpose construction. The method assures that no function is allocated more cost than either the value of the benefits it produces or the alternative cost of developing the site for that purpose alone.

In the foregoing discussion, the term "separable costs" refers to those costs which are traceable to the inclusion of a given function in a multiple-purpose project. It is the same as the difference in the cost of the development with and without the function.

For example, in the case of power, the separable costs comprise the costs of the power features, such as the added cost of the powerplant and switchyard, and the cost of any added height of dam or area of

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reservoir which has been included specifically and exclusively for the power function of the project.

The reasoning here is simply that, if power were not included in the project, these costs would not have been incurred. This is a matter of project design and cost estimating, quite independent of cost allocation theory. This cost is obtained by comparing an estimate of cost of a project without power with the cost of the project including power. Exactly the same procedure applies to each function.

For flood control, an example of a separable cost would be the inclusion of additional storage and outlet capacity required over and above normal operational flows for greater storage and releases at time of flood flows to permit optimum handling of the flood flows.

The principal question in cost allocation, as regards reimbursability, is whether the allocation to the nonreimbursable functions, flood control and navigation, should be maximized or should be treated the same as the reimbursable functions.

A maximum nonreimbursable allocation results from assuming either that flood control and navigation should bear costs up to the full limit of their capitalized benefits or that these nonreimbursable functions should bear all project costs except the incremental costs of adding a reimbursable function, such as power.

However, we have considered it to be no more equitable to charge the entire cost of a multiple-purpose dam to a nonreimbursable function such as flood control than it would be to charge it to any other purpose—nonreimbursable or reimbursable. Rather, all functions should be treated uniformly and equitably.

The provision in paragraph 13 (c) (1) that the cost of power be repaid in a period of 100 years is not, in our opinion, sound. We recognize that the physical life of most structures, such as dams, may well be longer than 50 years; however, there are several other factors, we believe, that support a 50-year period for power payout.

One of these is obsolescence, and another is the steadily increasing costs for operation, maintenance, and replacement. Obsolescence is probably a more important factor than the physical life of projects. Thus, the Department generally supports a 50-year period for power payout.

At the end of section 16 (b) the bill proposes legislation that would, in effect, direct an agency to make a favorable recommendation for authorization whenever a project is found to have benefits in excess of costs.

In our opinion, such a provision in a water-resources policy act would be undesirable because it would place too much reliance on the benefit-cost ratio and would preclude an agency from giving consideration to other matters of possible overriding importance.

For example, if a project for which a proposed plan has been developed was found to have no local support even though the prospective beneficiaries would be largely local, it obviously should not be recommended for authorization.

It is to prevent situations of this type that we believe that the agencies of the executive branch of the Government should be free to prepare their recommendations based on their best judgment of all factors affecting the situation. Congress, of course, will have the final say as to the action to be taken on these recommendations.

In section 16 (c) the bill proposes that units or features of a project may be included even though their added costs would be greater than the added benefits, provided total project benefits would still be greater than total costs.

The inclusion of such units or features in a project would violate a basic principle that a project or program should be so designed as to include those separable segments or increments of scale of development that will provide benefits at least equal to the costs of their inclusion. Any features that had benefits less than costs would be uneconomic increments, and, in our opinion, their inclusion in a project would not be in the national or overall public interest.

Thank you.

Mr. ASPINALL. Thank you very much, Mr. Bennett.

Now we will have the presentation from Gen. John L. Person, Assistant Chief of Engineers for Civil Works, Corps of Engineers, Department of the Army.

If you will stay right there, Mr. Bennett, and if you will take your place, General Person, we shall listen to the presentation of General Person and then we can question you together. As I understand it, you do not have a prepared statement?

General PERSON. No, sir.

Mr. ASPINALL. You may proceed.

STATEMENT OF GEN. JOHN L. PERSON, ASSISTANT CHIEF OF ENGINEERS FOR CIVIL WORKS, CORPS OF ENGINEERS, DEPARTMENT OF THE ARMY

General PERSON. Mr. Chairman, I am John L. Person, Assistant Chief of Engineers for Civil Works.

I have little to add to the report by the Secretary of the Army, but I might make some comments in connection therewith.

The bill would amend Public Law 398, 76th Congress, commonly known as the Wheeler-Case Act, and since the Wheeler-Case Act has to do with Federal irrigation projects it could be assumed that the intended purpose of the pending bill was to guide the Secretary of the Interior in carrying out such projects. Therefore, the Department of the Army does not wish to express an opinion on the merits of the bill as applied to the Department of the Interior.

However, section 14 (a) of the proposed amendatory language would make the policy provisions of H. R. 7362 applicable to projects of the Corps of Engineers. This could give rise to a number of difficult problems, the full consequences of which we cannot foresee at this time, and certain of the proposed policies are in conflict with the recommendations of the various commissions and other groups that have studied Federal policies governing the program of the corps in recent years, particularly the Presidential Advisory Committee on Water Resources Policy, in the deliberations of which the Department of the Army participated, and in the conclusions of which report the Department of the Army agreed.

I do not mean to convey the impression that the Department of the Army disagrees with all of the policies that would be established by H. R. 7362. We certainly agree for example, that resources should and must be developed under comprehensive multiple-purpose plans

encompassing entire river basins, but I should prefer not to analyze the specific policies involved, although the previous witness has done so very ably.

The problems which the enactment of H. R. 7362 in its present form would create for the Department of the Army could be eliminated by deleting from the bill section 14 of the proposed amendment to the Wheeler-Case Act and by making it clear that subsequent sections of the language would apply only to the reclamation activities of the Department of the Interior.

In this connection, a somewhat similar bill, H. R. 965, is now pending before the Public Works Committee of the House, along with other legislation affecting the policies under which the Corps of Engineers operate; and were legislation to be recommended and enacted by both the Interior Committee and the Public Works Committee establishing basic policies to govern our program, there could be some rather difficult problems created, and there might be inconsistencies which would add to those problems.

So our position is merely that we would prefer not to comment on the provisions of the bill pertaining to the Department of the Interior, but we would recommend that section 14 be deleted from the bill, sir.

Mr. ASPINALL. Unless there is an objection, the time will be divided evenly between the two sides of the committee; the gentleman from Florida will be recognized for his 10 minutes, and the gentleman from Colorado, Mr. Chenoweth, will be recognized for his 10 minutes.

The Chair recognizes the gentleman from Florida.

Mr. HALEY. Does the gentleman from California want to use any time?

Mr. SISK. Not at the present time.

Mr. HALEY. I will reserve my time.

Mr. ASPINALL. The Chair would like to ask a few questions.

As I understand your statement, Mr. Bennett, you state that comprehensive water resource development policies should be established by the Federal Government; is that correct?

Mr. BENNETT. Yes, we believe that.

Mr. ASPINALL. Your position is the same, is it not, General Person?

General PERSON. Yes.

Mr. ASPINALL. I will ask you this question:

Do you think that it is possible to establish a comprehensive policy unless we have an enactment of legislation from the legislative department of Government? In other words, is this an executive function or is this a legislative function, Mr. Bennett?

Mr. BENNETT. It is undoubtedly a combination of both. There is, of course, open for debate the detail which a legislative proposal should go into and how much of that should be left to the executive.

Mr. ASPINALL. Then I will ask this next question:

At the present time we are operating in this respect under A–47; is that correct?

Mr. BENNETT. To a considerable degree, yes.

Mr. ASPINALL. To what degree are we not operating under it? Are there established procedures otherwise than what are set forth in A–47?

Mr. BENNETT. I would not want to say that every project that is sent up to the Congress agrees exactly with A–47. In fact, A–47 allows some considerable leeway.

Mr. ASPINALL. When projects are sent up for consideration and study, are they not presumed to comply very closely to circular A–47? Congress may change them, but when they come up here are they not presumed to comply very closely to that?

Mr. BENNETT. If you consider the escape clause, yes.

Mr. ASPINALL. Then the next question is this:

What authority and what position and what responsibility did the legislative department of Government have in the drafting of any of the provisions of circular A–47 or any circulars prior thereto?

Mr. BENNETT. So far as I know, it had none.

Mr. ASPINALL. Then am I right when I make this statement: Because of the failure of Congress to accept this responsibility the executive department assumed it?

Mr. BENNETT. That is right.

Mr. ASPINALL. Do you agree with what has been stated so far, General Person?

General PERSON. Yes, sir.

Mr. ASPINALL. Mr. Bennett, could you advise the committee very briefly how the different formulas for determination of cost allocations developed?

Mr. BENNETT. How they developed?

Mr. ASPINALL. How they developed, yes.

Mr. BENNETT. I believe that was in my statement.

Mr. ASPINALL. I am not so interested particularly in what is in your statement as I would like to have a brief statement as to how we arrived in this situation in which we find ourselves at the present time, the legislative refusing the responsibility and the executive accepting the responsibility, how we brought ourselves up to this place so far.

Mr. BENNETT. I cannot speak to how the legislative branch did not take over the responsibility.

Mr. ASPINALL. I understand that. We accept that responsibility.

Mr. BENNETT. This is in my statement:

This allocation method was first recommended for general application to Federal projects by a Federal interagency group in 1950, based on studies originating in 1946. The method is substantially the same as that employed by the Tennessee Valley Authority on its projects.

I am assuming that probably that was the origin of the method so far as the Government is concerned.

The TVA allocation study of 1945 was the subject of a review and approval by the Federal Power Commission at the request of the Senate Committee on Public Works in 1949. The separable costs-remaining-benefits method was also favored by the House Subcommittee To Study Civil Works in 1952, which recommended that each purpose of a project share equitably in the savings resulting from multiple-purpose development and also that the allocation be initiated by the construction agency. It is the method also which has been endorsed by the Presidential Advisory Committee on Water Resources Policy in its report transmitted by the President to the Congress on January 17, 1956.

That covers the cost allocation. Now the evaluation procedure, I know something about it. It goes back to the original provision in the Flood Control Act of 1936 that provides that flood-control proj-

ects—I do not remember the exact language, but it refers to benefits to whomever they accrue exceeding the cost.

At that time I was in the Department of Agriculture, and a group was organized there to calculate the benefits and costs of the upstream land treatment which was assigned by the 1936 act to the Department of Agriculture.

Later on in the project evaluation work, some phases of it were taken on by the old Natural Resources Planning Board which had a project evaluation committee composed of representatives of various Federal construction agencies and some private consultants.

When the Natural Resources Planning Board was abolished by the Congress in 1943 an interagency water resources committee was organized, and it established an evaluation subcommittee. That committee developed what is called the Green Book, as I recall, and I believe the Green Book is to a considerable degree the basis of A–47.

Mr. ASPINALL. To put it very briefly, then, the history is something like this: Up until 1936 the Bureau of Reclamation and the Corps of Army Engineers moved separately, individually, on projects. They followed no set rules, but the individual projects were pretty well disposed of by Congress on their own merits as Congress saw fit.

Then from 1936 to 1946 there was a development by which the two were trying to get together on more or less a comprehensive mutually understood program. Is that correct?

Mr. BENNETT. That is correct.

Mr. ASPINALL. Do you agree with that, General Person?

General PERSON. Yes, sir.

Mr. DAWSON. Is that the Pick-Sloan plan?

Mr. ASPINALL. No, that is a little bit different than that, but that is a part of the whole thing.

Since that time, with the feeling that there should be a closer understanding between all agencies having to do wtih water resource development, the executive department has issued these circulars and they presently try to follow as closely as possible A–47. Is that right?

Mr. BENNETT. Yes, sir.

Mr. ASPINALL. Both of you agree to that?

General PERSONS. Yes.

Mr. ASPINALL. We are having this hearing today because some people in the Nation who are friendly toward water resource development programs feel that we are at an end of development, or almost, if we have to conform rigidly to the policies set forth in A–47.

My time has expired. We will go into that further.

The gentleman from Colorado has 10 minutes.

Mr. CHENOWETH. Mr. Bennett, could you tell us in a few words what the main objections are to this bill? The Secretary of the Interior reported unfavorably. Just in language the committee can understand, without the technical verbiage, tell us just what the objections are and what this bill would do, how it would change your present operations in the Bureau of Reclamation on the survey of projects and preparation of reports on the feasibility of a project.

Mr. BENNETT. Briefly, our objections are to certain ambiguities contained in section 13 (a)——

Mr. HALEY. Will the witness speak louder, please?

Mr. BENNETT. Our objection goes to section 13 (a), which is ambiguous with respect to what features of the project should be allocated in the way that is indicated by the section. We do not agree with the method of cost allocation which is set forth in the bill.

Mr. CHENOWETH. How does that change your present method of allocation? What is the bill seeking to accomplish, in other words, briefly? Why is the bill before the committee, from your point of view, as you have analyzed it?

Mr. BENNETT. Apparently, the——

Mr. CHENOWETH. What do they want you to do that you are not doing now?

Mr. BENNETT. It would have us allocate to power only the incremental costs of the project.

Mr. CHENOWETH. The bill essentially, then, concerns itself more with power than other features of multiple-purpose projects?

Mr. BENNETT. It concerns power more than other features of the project. If there were not power in the project, without going through the bill with a fine-tooth comb, I could not tell you how it would affect our projects.

Mr. CHENOWETH. I believe Mr. Trimble stated the power features would be considered on the same basis as irrigation features.

Mr. BENNETT. They would in a project that has also irrigation as one of its purposes.

Mr. CHENOWETH. There would be no interest charged on the power costs, the same as irrigation. There is no interest charged now on irrigation.

Mr. BENNETT. No; wait a minute. Interest would be charged on power.

Mr. CHENOWETH. How would it change it? We charge interest on power now.

Mr. BENNETT. I say a project which contained both irrigation and power probably would be handled the same as it is now.

Mr. CHENOWETH. What does the bill do, then, so far as power is concerned?

Mr. BENNETT. For those projects it probably would not do very much of anything. But, as I say, we would have to go through the bill with a fine-tooth comb to discover how it would affect it.

Mr. CHENOWETH. In other words, you have not had the opportunity to analyze it thoroughly?

Mr. BENNETT. The bill is ambiguous.

Mr. CHENOWETH. General, what is your observation on the bill as it affects the Corps of Engineers in flood control projects?

General PERSON. As I say, we have not studied it in detail since it refers basically to another department. But the methods of cost allocation, for one thing, are at variance with the recommendations of the Presidential Advisory Committee on Water Resources Policy and at variance with what we feel is sound cost allocation, in that only the incremental cost of power is allocated to the power feature.

Mr. HALEY. Will the gentleman yield to me just a moment?

Mr. CHENOWETH. Yes, I will yield.

Mr. HALEY. It seems to me, Mr. Chairman, that these two gentlemen come down here in opposition to this bill, yet they do not seem to have analyzed the bill. I would suggest probably they go back

and take the bill and come back here and be prepared to answer some questions. The gentleman from Colorado has not received an answer to any question he has asked.

Mr. CHENOWETH. What I was trying to get at, Mr. Chairman, was the purpose of the bill.

As you analyze it, General, why is the bill here? What do the sponsors who propose the bill seek to get you to do that you are not doing now?

General PERSON. The changes that would be effected in our current practice, the major changes, are as follows:

First, the method of allocating the cost of power, which we now allocate under the separable costs-remaining benefit method, under which all purposes of a project share equally in the joint costs, would be changed to charge only the incremental costs of adding power to the project. That, we feel, is unsound.

Second, it would require that in any case where the benefits are found to exceed the costs we would have to automatically make a favorable recommendation. We feel that is unsound because in many cases—not many cases, but in some cases—we find that where the benefits are purely local, even though the benefit-to-cost ratio is high, either the local interests do not want the project or are unwilling or unable to make the local cost contribution.

So, in such a case I do not feel we should make a favorable recommendation.

There is another feature which is not too clearly stated in the bill, but it provides that in a river basin the economically justified projects should carry the cost of the economically unjustified projects. Our feeling is that a project should stand or fall on its own merits and not be carried by another project which happens to be in the same basin which has a high ratio.

Mr. CHENOWETH. Is it a question of local contribution and land enhancement values that is involved in this bill?

General PERSON. Apparently not to any extent, sir. But the fact that, if we had a river basin with several dams which had very high economic ratios, and then in the same river basin we happened to have one which was obviously unsound economicaly, then under the provisions of this legislation we would have to recommend favorably on the project which is not economically justified, and we do not feel that is sound.

Mr. EDMONDSON. Will the gentleman yield?

Mr. CHENOWETH. Yes, I will be glad to yield.

Mr. EDMONDSON. One major feature of this bill which I have not heard a comment on—but I did have to step out of the room for just a moment—is the payout period provision. Has either witness commented on the payout period?

General PERSON. Mr. Bennett commented on that.

Mr. ASPINALL. Mr. Bennett commented on that.

Mr. EDMONDSON. Would the general comment on that proposal?

General PERSON. I am in general accord with the position taken by Mr. Bennett—that, in general, a 50-year period seems to be reasonable. If it is considered that a longer period should be adopted by the Congress, then we would follow that.

Mr. EDMONDSON. As I understand this provision, if it were determined that a reasonable life of the project were 125 years, then you would invoke the 100-year payout period.

General PERSON. Under the provisions of this legislation, yes, sir.

Mr. EDMONDSON. Do you think that would be unreasonable, where it was determined that a project would have a 125-year reasonable life usefulness, to use a 100-year payout period?

General PERSON. Well, sir, I think that our position on the 50 years is largely based on the fact that we cannot project our thinking much more than 50 years into the future as to the economic conditions that might exist, as to the values of power, for example; and that if the taxpayer is making an investment in a capital improvement such as this, we feel it is reasonable that the taxpayer get his return within a 50-year period.

There is nothing magic, of course, about the 50 years, but it seems to me to be a reasonable time in which to expect that the investor will get his money returned.

Mr. EDMONDSON. I thank the gentleman.

Mr. ASPINALL. Will the gentleman from Colorado yield to me?

Mr. CHENOWETH. Yes, I yield.

Mr. ASPINALL. You say that and you follow that procedure in spite of the fact that private business does not adhere to that program at all in relation to the building of these large power projects. Is that correct? In other words, they build these projects without any consideration, as I understand it, of the question of refunding the indebtedness at any particular time; they carry on the project as an investment just as long as there is any life in the project.

General PERSON. Yes, but I am sure they charge depreciation and amortization of the investment and replacement costs of the equipment as part of their costs.

Mr. ASPINALL. As far as their investment or for tax purposes?

General PERSON. Well, sir, I do not know, but I would assume that they would consider that as part of their costs.

Mr. ASPINALL. Thank you.

Mr. BENNETT. Mr. Chairman, it really makes in the rate very little difference. If you set up a 100-year period you have to assume higher costs of maintenance, must assume higher costs of replacement, and the difference between the two amortization figures is very small. I believe it is about 10 percent that you need to add to the amortization costs in order to pay out on a project in 50 years. Then you can go out and build another one.

Mr. ASPINALL. I see our time is up. Mr. McFarland has one question.

Mr. MCFARLAND. Mr. Bennett, one of the problems here apparently is the method of allocation to power which absorbs a considerable portion of the joint costs of the project. If I understand your statement, you stated in evaluating a project to determine the inclusion of the various purposes that you would include a purpose, let us say power, if that purpose could pay the cost of adding it. Is that right?

Mr. BENNETT. Yes.

Mr. MCFARLAND. Let's assume, then, that you added power to the project on that basis, that it did pay the cost of adding it. Then

when you establish the rate you would establish the rate based on returning the cost of adding it, would you not?

Mr. BENNETT. No; you would establish the rate based on the cost of adding it, plus the cost of the joint features.

Mr. MCFARLAND. Wait a minute. You have already said you have determined that is all it can pay, that is the reason you added it. If you have determined that is all it can pay, you are not going to make it pay more.

Mr. BENNETT. If that is all it can pay, yes, that is all you can charge.

Mr. MCFARLAND. Then you are going to turn around and add more costs to it for repayment purposes. Is that right? That is what you said.

Mr. BENNETT. Yes, you do. That is my understanding of it.

Mr. MCFARLAND. Then you determine your feasibility based on repaying only the cost of adding it, but in setting a rate you add an additional cost in there.

Mr. BENNETT. You do that for every purpose of the project.

Mr. MCFARLAND. But that method itself indicates you are making power infeasible by adding this additional cost. You are adding more than they can repay.

Mr. BENNETT. No, you do not. If the power users can pay no more than the cost of adding power to the project, you base the rate on the cost of adding it. That is your marginal power project.

Mr. MCFARLAND. The point I am making, and I will not pursue it any further: But in your studies to determine whether to add this power, you have determined that they can repay the cost of adding power, and that is all they can repay. So you add power to the project based on that determination. Then when you start marketing the power you determine the rate based on something else, which is the cost of adding it plus the cost of joint features.

Mr. BENNETT. We determine the benefit in relation to the cost, the general benefit in relation to the cost. If that is as great——

Mr. ASPINALL. The House is in session. The Chair wishes to make this comment——

Mr. BENNETT. Mr. George Tomlinson of our project planning branch of the Bureau of Reclamation will answer.

Mr. ASPINALL. How long will it take you?

Mr. TOMLINSON. I can hold it until tomorrow, if you wish. I would like to correct a slight inaccuracy in the technical discussion, but I can wait until tomorrow, if you wish.

Mr. ASPINALL. We will not have these witnesses on tomorrow. Unless there is an objection, we will receive a written statement.

Mr. BENNETT. I can answer in just a second. The answer to your question is that if it is a marginal project, if they have no ability to pay beyond the specific cost of adding the project, no joint costs are allocated to the project. Then it does become the same as the incremental costs.

Mr. MCFARLAND. In other words, you can allocate incremental costs of power without changing your overall method of cost allocation?

Mr. BENNETT. If the power users cannot pay any more than that incremental cost.

Mr. MCFARLAND. Yes.

Mr. ASPINALL. We will have these witnesses back.

Now, the Chair is calling a meeting of the committee for approximately 2 o'clock, if we are permitted to sit while the House is in general debate on the Health, Education, and Welfare appropriation bill.

I would suggest to the witnesses that they be here at 2 o'clock. If the members get here at half past two, or three, you will just have to wait for us, because that is the only possibility we have of meeting this afternoon. When we come back we shall then listen to the witnesses from out of town.

Mr. Pope will be the first witness.

(Whereupon, at 11:05 a. m., the subcommittee recessed, to reconvene at 2 p. m. of the same day.)

AFTERNOON SESSION

Mr. EDMONDSON (presiding). The Subcommittee on Irrigation will come to order.

Our first witness scheduled is Mr. Doyle Pope of the Western Farmers Electric Cooperative, Anadarko, Okla.

It is a personal pleasure to me to have you appear before the committee. We appreciate very much your coming here and giving us the benefit of your views on this legislation.

STATEMENT OF DOYLE POPE, PRESIDENT OF THE WESTERN FARMERS ELECTRIC COOPERATIVE, ANADARKO, OKLA.

Mr. POPE. Mr. Chairman and members of the committee, this is a privilege and an opportunity we greatly appreciate.

I live on my farm which is located southeast of Norman, Okla. For the past 18 years I have served as a trustee on my local electric cooperative board, and for the past 2 years I have served as president of the board of trustees of Western Farmers Electric Cooperative, Anadarko, Okla.

Western Farmers Electric Cooperative is owned by 11 electric distribution cooperatives, Alfalfa Electric Cooperative, Caddo Electric Cooperative, Cimarron Electric Cooperative, Cotton Electric Cooperative, Harmon Electric Association, Kiwash Electric Cooperative, Northfork Electric Cooperative, Northwestern Electric Cooperative, Oklahoma Electric Cooperative, Rural Electric Cooperative and Southwest Rural Electric Association. It is in behalf of these organizations that I appear before you.

I would like to predicate my remarks on this fact which I sincerely believe: "The rural people of western Oklahoma expect and desire to pay a fair price for hydroelectric power." Their primary concern at this moment is how the cost of such power is determined. We feel the principles contained in House bill 7362 provide a fair and equitable basis for determining these costs.

To operate any business in a competent and prudent-like manner, it is necessary to budget and plan for the future. We as a generating and transmission electric cooperative have a utility responsibility of providing an adequate and dependable supply of power at the lowest possible cost to our 11-member cooperatives and we consider this responsibility with a great deal of seriousness.

When we consider our power requirements for 2-, 5-, and 10-year periods in advance attempting to provide an adequate supply, we by necessity must include the purchase of hydro power from the flood control dams in the Southwest. We must also consider that should additional steam generation be necessitated, that a period of 2 to 4 years is required to obtain the necessary equipment to construct such capacity.

A few months ago we were informed by the marketing agency of the Federal Government in the Southwest that it would be necessary to increase the cost of such hydro power approximately 40 percent. Before this proposed increase was invoked it was learned that a 27-percent increase would suffice.

Upon investigating to the best of our ability, which was somewhat limited, it was learned that various agencies of the Federal Government were operating under split responsibilities and were attempting to determine between themselves what allocations of cost should be made on the flood control projects in the Southwest area, particularly those costs allocated to hydroelectric power.

We further learned that very little uniformity exists between the allocations on the various flood control projects, existing and/or proposed, in the Southwest area. For example, approximately 32.5 percent of the cost of Dennison Dam is allocated to power and 77.5 percent of the cost of Table Rock is allocated to power, both constructed primarily for flood control.

It should be recognized that the primary purpose of all multiple projects in the Southwest area of the United States is for flood control. The installation of hydroelectric facilities on such projects and the output is incidental and very limited in its production by Mother Nature.

The hydro facilities on nearly all of the flood control dams in the Southwest area can only be operated about 25 percent of the time because of the irregularity of rain and streamflows. In fact, we have been informed that on some projects the electrical facilities were not operated for 10 or 11 months out of the year.

Of course, the water stored in these reservoirs during this time was used by municipalities, recreation, flood control, et cetera. When we learned of these points it magnified our problems not only from an economic point but managementwise.

Western or its 11 members cannot properly plan our future needs or budget our finances when agencies of the Federal Government arbitrarily change the allocations of cost on these flood control projects from which we depend on purchasing a portion of our power supply.

We understand at the moment that the agencies determining these cost allocations have established an amortization period for these flood control projects for a period not to exceed 50 years. To us then it seems that it would only be reasonable and realistic to spread the burden of repayment over the reasonable life expectancy of the projects whereby those persons or firms receiving the benefits therefrom would pay their fair share of the cost.

Our 11 member cooperatives, who in turn serve electric power to some 50,000 rural consumers in the western half of Oklahoma, have paid $165,130.13 more for their power during the past 6 months, that is, September, October, November, and December 1957, and January and February 1958, because of the 27-percent rate increase imposed

upon them for hydro power produced from the flood control projects in the Southwest area.

This increase of 27½ percent might be the difference in our co-ops in western Oklahoma operating in the black or in the red.

I will say that I think probably it will put most of them in another year operating in the red. That is why we think there should be a fair cost allocated to these dams. Our people have faith in the Congress that if this bill is passed that we will be treated fairly.

We are not sure why this rate increase was necessitated, nor do we have any reasonable assurance that it will not be increased again, depending upon the likes and dislikes of Government bureaus here in Washington.

Gentlemen, it is difficult enough for us to operate our businesses in a sparsely populated area like western Oklahoma in such a manner to meet our repayment schedule to the Rural Electrification Administration without having the bureaus of Government capitalizing on our lack of knowledge of their operations.

We want to pay our share of these flood control projects but we want to pay only a fair share and expect the other beneficiaries of the projects, such as flood control, navigation, municipal water supply, recreation, et cetera, to pay their fair share.

We do not feel that the present manner in which this activity is being conducted lends itself toward competent and accepted business standards. Western and its 11 members cannot continue to base our plans to serve the electrical needs of the rural people of western Oklahoma on such unrealistic and unstable determination of various bureaus.

The Trimble bill, which we are concerned with here today, in our opinion will correct these practices in a fair and reasonable manner. To us, it places the privilege of determining these cost allocations in the hands of Congress where we think it should be and remain. This will stabilize the picture where we as purchasers of power can, in good conscience, make our plans and lend our support toward the economic feasibility of such projects.

The Trimble bill provides a realistic method of tying the amortization period to the useful life of the facilities.

In addition, it contains the principles whereby realistic charges can be made to all beneficiaries of the project, including electric power.

Gentlemen, we in western Oklahoma strongly urge the passing of House bill 7362.

Mr. EDMONDSON. Have the members of your cooperative been forced to raise their rates to their consumers?

Mr. POPE. The co-op that I belong to has not at the present time, Mr. Chairman, but around 4 or 5 of our co-ops of Western Electric have.

Mr. EDMONDSON. Do you know how substantial their increases have been?

Mr. POPE. No, I do not know what percent their increases have been. Some have raised their rates. I believe Mr. Crocker has raised his rates and he is going to testify after me. He probably could tell you.

Mr. EDMONDSON. Mr. Chenoweth, do you have any questions?

Mr. CHENOWETH. Just a couple. What do you pay for power?

Mr. POPE. It is running around, our particular co-op is running around 8½ mills, about an increase of 2 mills on the 27½ increase.

Mr. CHENOWETH. You have your own generating plant?

Mr. POPE. We have our own generating plant. Of course, we use a lot of steam power with that.

Mr. CHENOWETH. What do you use, oil or gas?

Mr. POPE. We use gas.

Mr. CHENOWETH. What do you figure it costs you to produce the power at that plant?

Mr. POPE. I would not know just exactly what that figure is. I believe the assistant manager is here. He could probably supply that, Mr. Simpson.

Mr. CHENOWETH. I am just curious about how the cost of your operations compares with the cost of hydroelectric power.

Mr. POPE. It is higher.

Mr. CHENOWETH. What did you say you were paying for the hydroelectric power?

Mr. POPE. All the power to our cooperative?

Mr. CHENOWETH. You say they raised the rates 27 percent. What were you paying before and after they raised the rates?

Mr. POPE. About 6.6. Now it is up 8.6 or 8.9.

Mr. CHENOWETH. What were the reasons advanced for the raise in rates?

Mr. POPE. That is what we do not know. I do not know.

Mr. CHENOWETH. How long have you been purchasing this hydroelectric power?

Mr. POPE. Five or 6 years.

Mr. CHENOWETH. Where does it come from?

Mr. POPE. It comes from Eastern Oklahoma Denison Dams.

Mr. CHENOWETH. How long has the dam been in operation?

Mr. POPE. For a good many years.

Mr. CHENOWETH. Have you enjoyed the same rate from the beginning of the dams up until now?

Mr. POPE. Yes.

Mr. CHENOWETH. It is the first increase in rates?

Mr. POPE. Up until the 27½ percent increase went into effect.

Mr. CHENOWETH. Your group feels that the increase was excessive and there was no reason for such a high increase?

Mr. POPE. That is right. It is going to bankrupt every co-op in western Oklahoma. If they raise it 27½ percent maybe they will raise it 27½ more. We have got no assurance that they won't.

Mr. CHENOWETH. Who do you deal with in negotiating such a rate?

Mr. POPE. Through SPA, Southwestern Power.

Mr. CHENOWETH. Will some of their people be here to give us some information on this?

Mr. POPE. I do not know whether they are appearing or not.

Mr. CHENOWETH. I think that is all, Mr. Chairman.

Mr. EDMONDSON. You will recall, Mr. Pope, that we held some joint hearings with the Senate Committee on Public Works and Interior at the time of that proposed rate in question.

Mr. POPE. Yes.

Mr. EDMONDSON. And it was related directly in the testimony of the administration's witnesses at that time to implementation of the revised circular A–47; is that correct?

Mr. POPE. That is right.

Mr. EDMONDSON. Thank you very much for your testimony.

Mr. POPE. Thank you, Mr. Chairman.

Mr. CHENOWETH. I am sorry more members of the subcommittee were not able to be here to hear it.

Mr. POPE. That is all right.

Mr. EDMONDSON. The next witness listed here is Mr. Howard Crocker, manager of the Northwestern Electric Cooperative of Woodward, Okla.

STATEMENT OF HOWARD G. CROCKER, CHAIRMAN OF THE LEGISLATIVE COMMITTEE OF THE OKLAHOMA STATEWIDE ELECTRIC COOPERATIVE

Mr. EDMONDSON. Mr. Crocker, I understand you are chairman of the Legislative Committee of the Statewide Cooperative.

Mr. CROCKER. Yes, sir; that is right.

Mr. EDMONDSON. You should be well acquainted with this problem and we appreciate having you here.

Mr. CROCKER. Thank you very much.

Mr. Chairman and members of the committee. My name is Howard G. Crocker, of Woodward, Okla. I am chairman of the Legislative Committee of the Oklahoma Statewide Electric Cooperative, which is a service association representing the rural electric cooperatives of Oklahoma.

I am here to urge favorable consideration of H. R. 7362 by this congressional committee.

For the committee's information, I would like to present to you some conditions which make H. R. 7362 a real stabilizing influence upon the future of the rural electric cooperatives in Oklahoma, and show how passage of this legislation can have a favorable influence on the economy as a whole.

The 26 distribution cooperatives in Oklahoma have more than 25,000 idle services yet standing, and several thousands more which have been retired. This compels the remainder of consumers in each system to pay for the loss of this investment.

Oil pumping loads among a few of the cooperatives have offset to some extent but not altogether, the loss of other consumers, however, a decline in the oil industry in Oklahoma in recent months has created a curtailment in revenue from this type of powerload.

Latest figures available from the Rural Electrification Administration show that only 5 of the 26 systems in Oklahoma have an average monthly residential usage of more than 200 kilowatt hours. Eleven have a monthly usage of 150–200 kilowatt hours average, 8 others have a monthly average of 100–150 kilowatt hours, and 2 yet have an average monthly consumption of fewer than 100 kilowatt hours.

Survey of gross revenue per mile discloses that 9 of the systems have a gross revenue per mile of less than $15 per month. Eleven average between $15 and $20 per month per mile, 5 average between $20 and $25 per month per mile, and only 1 system has revenue per mile per month exceeding $25.

The August 9, 1957, wholesale rate increase by the Southwestern Power Administration to the cooperatives and certain other economic conditions necessitated consumer rate increases to this time by five cooperatives.

Four other cooperatives were forced to increase rates between January 1, 1955, and prior to August 9, 1957.

Others are on the verge of rate increases at this time, with studies of the amount necessary being computed at present.

Five Oklahoma cooperatives operated at a loss in 1957, and four anticipated a loss on operations in 1958.

Some have increased their rates to their consumers.

Mr. EDMONDSON. Could I interrupt you at that point?

Mr. CROCKER. Yes, sir.

Mr. EDMONDSON. None of these cooperatives have failed to make payments on the loans to the REA?

Mr. CROCKER. That is right. There are no delinquencies in Oklahoma.

Mr. EDMONDSON. What they have been doing is making payments of that kind out of surplus that they might have on hand from past years operations, is that it?

Mr. CROCKER. Yes. Of course, for several years after a loan is secured it is not necessary under the law for the cooperatives to pay interest or principal payments on those loans. Most of us have had that money to go ahead and operate on and make our payments.

Mr. CHENOWETH. I want to inquire about your statement about the 25,000 idle services yet standing and several thousand more which have been retired. What has brought that about?

Mr. CROCKER. That is people who have left the farms.

Mr. CHENOWETH. Would you say the principal factor in this rate increase would be this situation or the fact that they increased the rate 27 percent?

Mr. CROCKER. Not necessarily. It is not necessarily a fact that this 27-percent rate increase is what caused these people to leave.

Mr. CHENOWETH. No, I mean the reason for increasing the rates. Was it the increase in the hydroelectric power or because of the fact that the people left the farms making it necessary for those who are left to stand the whole load?

Mr. CROCKER. I am like Mr. Pope. I do not know why Southwestern Power increased the rates. The only think we know is that they did increase the rural electric cooperatives and the municipalities of the State 27 percent.

I understand that they just needed more money to operate with.

Mr. CHENOWETH. If we assumed that they had not increased the rate at all, what would the situation be with these cooperatives as far as these people leaving the farms? Would you still have to raise the rates?

Mr. CROCKER. Most of them would not. I can speak for one. The cooperative of which I am the manager would not have had to increase the rates if there had not been an increase in our wholesale power bill. We came out last year with $16,000 profit, which is a very small amount over a $5 million investment, but since October, which is the time this rate went into effect, our cooperative has operated at a loss every month.

Mr. EDMONDSON. Has this decline in the number of customers also been accompanied by a decline in your volume of sales in the amount of power that you sell?

Mr. CROCKER. No. In one way it has not. We have still sold more kilowatt-hours. Of course, we would have sold a good many more if we had not had these vacant farm services. We have maintained our kilowatt-hour consumption overall for the year, but we still lost revenue, of course, by having so many vacant farm services.

Mr. CHENOWETH. In other words, the people are using more power even at the increased rates?

Mr. CROCKERS. There are not too many cooperatives that have increased the rates to the individual consumers.

Mr. CHENOWETH. Even at that, they are using more power than they did before. That compensates for the loss of the other customers.

Mr. CROCKER. I am sure I do not know. Our particular consumers are using as much or a little bit more but we have not yet increased our rate. We expect to have to.

Mr. CHENOWETH. I was not sure whether you wanted the committee to understand whether the cause for the increase in the rates to the consumer was entirely the increase in cost of the Southwestern Power or whether other factors entered into the situation.

Mr. CROCKER. I represent a cooperative in my district which increased the rates. Of course, the power is not the factor at all. There are other elements that entered into the situation.

Mr. CHENOWETH. I wondered whether that applied to your cooperatives? That is one of the factors but it is not the total reason for the people leaving.

Mr. EDMONDSON. Thank you, Mr. Crocker. You are trying to give us the facts and we can draw our own conclusions from the facts, is that it?

Mr. CROCKER. Yes, sir.

On this wholesale rate increase, these figures can give you some idea as to what it will mean. The wholesale increase on the cooperatives in Oklahoma will amount to nearly $500,000 this first year. That figure, we anticipate, will go to $3 million in the next 5 years. In the next 15 years we expect that figure to reach $18 million. 15 years is only half the length of our loan period. So it gives the idea about the amount of dollars and cents this raise will affect our cooperatives.

Of course, higher rates for electric power does, I think, in the long run mean less usage per consumer. Most people will pay about so much for electric power. Some of them will increase, of course, and very few of them drop down in their consumption, but certainly increasing rates, I do not think, ever solved the problem of decreasing revenue for a cooperative.

Of course, we do not want to increase rates. We want to decrease rates so they can add to their power consumption.

These general farm conditons in Oklahoma brought about the loss of 24,000 farms from 1950 to 1956 and we have been advised that more than 6,000 additional farms have been lost in 1957 and 1958. This is just an example of what is facing the electric cooperatives by losing this revenue per consumer and still having a rate increase put on them by Southwestern Power Administration.

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Our people believe that the provisions embodied in H. R. 7363 will help to alleviate these conditions.

The 100-year payout period for the cost allocated to electric power installation to go in public projects will spread the cost in such manner as to establish the rates, we think, at the lowest power figure consistent with sound business principles.

We think that with Congress assuming the responsibility for cost allocations, that the question will be placed closer to the actual needs of the people. We believe that Congress has the right to assume the jurisdiction in cost allocations. While the Senate Resolution 148, recently adopted, does not have the force of law, we feel that this House resolution would and that we would be much better off operating under that kind of a law.

I think, gentlemen, this is all that I have.

The wholesale rate increase will cost the cooperatives in Oklahoma nearly $500,000 the first year. Based on anticipated load growth, the present rate, as compared to the previous rate, will cost the cooperatives affected by the increase more than $3 million in 5 years.

Projecting this cost further, in 10 years this increase will amount to almost $10 million. This shows how a rate increase such as this can pyramid into tremendous costs on the systems over the period of less than half the life of a loan.

These figures are based on the individual conditions and studies of each cooperative.

Higher rates for electric power mean less average usage for consumers and, in turn, means less business for merchants in funds available for appliances, equipment, or other goods and services.

General farm conditions in Oklahoma have brought about the loss of 24,000 farms from 1950 to 1956, and we have been advised that more than 6,000 additional farms have been lost in 1957 and 1958.

Our people believe that the provisions embodied in H. R. 7362 will alleviate the conditions I have stated.

A 100-year payout period for the cost allocated to electric power installations in public projects will spread the cost in such a manner as to stabilize rates at the lowest possible figure consistent with sound business principles and encourage greater use of electricity.

If the incremental cost formula is used in allocating costs to electric power, it will further stabilize the rate situation so that future planning by the rural electric systems will have a more sound foundation for greater periods of time.

With the Congress assuming responsibility for cost allocations, we feel that the question will be placed closer to the actual needs of the people. We believe the Congress has the right to assume jurisdiction in cost allocations. We believe the Congress will more nearly reflect the needs of the people.

Findings of the joint hearing of the Senate and House Public Works Committees a year ago brought out the fact that the various executive agencies which have taken jurisdiction over cost allocations are not in agreement on formula problems, and considerable confusion has resulted in this phase of planning of public works projects.

Recently, the Senate adopted Senate Resolution 148, which memorializes the executive agencies of the Government which are concerned with cost allocations to submit to the Senate certain information on

cost allocations in order that the proper Senate committees might study the various formulas and make recommendations.

This seems to be a proper step in bringing this whole matter before the legislative branch of our Government for scrutiny and proper study, and indicates a growing feeling that the Congress feels a responsibility in this field which it has lost during the past few years.

While the Senate resolution does not have the force of law, H. R. 7362 meets the situation squarely and establishes legislative ground rules for procedure which cannot be ignored or usurped.

Very recently, the House adopted a bill concerning certain water projects in this Nation, and wrote into the bill some specifications for figuring cost allocations.

We believe that these specifications should come from the legislative branch of the Government, to avoid arbitrary alterations, and confusion among executive agencies as to what is equitable.

This resolution provides by law, ground rules for the stabilization of cost allocations for the life of water projects, and such ground rules are needed in order to provide more stable planning for the use of electric power from these projects. That would be of great benefit to the rural electric cooperatives in my State. Thank you.

Mr. EDMONDSON. Mr. Chenoweth, do you have any questions?

Mr. CHENOWETH. I have just one thought in mind which is about the rate the Southwestern Power Administration is charging you. What is the Southwestern Power Administration?

Mr. CROCKER. That is a branch, as I understand, of the Department of the Interior who has the job of selling the power that the Government generates in their hydroelectric dams in eastern Oklahoma, Arkansas, and Missouri.

Mr. CHENOWETH. Then it is a Government agency?

Mr. CROCKER. That is right; yes, sir.

Mr. CHENOWETH. Do you feel that they are charging you more for this power than they are justified in charging you now?

Mr. CROCKER. We feel that they are, yes, sir, because maybe for two reasons. I think probably one reason the cost of power went up is because they raised this allocation cost of power in the dams. We do not feel that should have happened and we cannot help but feel that all the customers of the Government should have been raised if some of them were raised.

Mr. CHENOWETH. When did this raise take place?

Mr. CROCKER. October 9, last year.

Mr. CHENOWETH. Last year?

Mr. CROCKER. Yes, sir.

Mr. CHENOWETH. Was there similar legislation before this committee about a year ago, something similar to this, some talk about increasing the rates of the Southwestern Power Administration.

I think about a year ago we had something before the committee along this line.

Mr. CROCKER. I think we have, yes, sir, for quite some time.

Mr. CHENOWETH. Is this the first increase that Southwest has imposed on you?

Mr. CROCKER. Yes, sir.

Mr. CHENOWETH. This was just talk about it before?

Mr. CROCKER. Yes, that is right. We have fought for it for over 2 years before this went into effect.

Mr. CHENOWETH. Do you think you would get a better rate if Congress would fix the rate?

Mr. CROCKER. Yes, sir.

Mr. CHENOWETH. Do you think we can provide some formula that we can produce the power cheaper than the Southwestern Power Co. can?

Mr. CROCKER. No, we feel that the Congress can establish the rate so we would know what the rates would be. We feel we would be much better than if the Department of Interior did it.

Mr. CHENOWETH. Do you have a contract for this power?

Mr. CROCKER. Yes.

Mr. CHENOWETH. Over what period?

Mr. CROCKER. We had a 40-year contract to begin with.

Mr. CHENOWETH. They changed the contract.

Mr. CROCKER. I do not know exactly what the contract embodied, but for a few years they did not see fit to operate under the contract at all. Now when they do, after we have been operating under it for a few years, our rate increases a large percentage we think.

Mr. CHENOWETH. Does the contract provide for a rate increase such as this?

Mr. CROCKER. I think it did, yes, sir.

Mr. CHENOWETH. I think that is all, Mr. Chairman.

Mr. EDMONDSON. Thank you very much, Mr. Crocker.

Mr. CROCKER. Thank you, Mr. Chairman.

Mr. EDMONDSON. The next witness is Mr. Wesley Clendenen, of the Co-op Electric Light & Power Co., of Iola, Kans.

STATEMENT OF WESLEY R. CLENDENEN, MANAGER, THE COOPERATIVE ELECTRIC POWER & LIGHT CO., INC., IOLA, KANS.

Mr. CLENDENEN. Mr. Chairman and gentlemen of the committee, my name is Wesley R. Clendenen, of Iola, Kans.

I am manager of the Cooperative Electric Power & Light Co., Inc., a rural electric cooperative serving approximately 2,300 members in 4 counties in southeast Kansas.

I am here representing the Kansas Rural Elecric Statewide Association as well as the cooperatives in southern and southeast Kansas, which is adjacent to areas now receiving electric power from the Southwestern Power Administration.

In Kansas farmers are the third largest distributors of electric power with an investment of approximately $100 million in 55,000 miles of line.

We feel the SPA is a yardstick for determining the present rates throughout the State of Kansas, as well as all of the southwest area. Consequently, we are vitally interested in any legislation affecting the SPA rates.

Farmers dependent on electricity to meet today's production requirements cannot afford increased power costs in the face of declining farm income due to lower prices and the recent years of drought. We feel Congress should clearly define the formulas for allocation costs and eliminate the confusion that seems to exist.

There are 36 rural electric cooperatives organized and operating in Kansas, with 9 of them located in the southern and southeast part of the State which is considered as being in the Southwestern Power Administration service area.

These 9 cooperatives serve approximately 22,500 consumers on about 10,500 miles of electric distribution line.

Due to the economic situation of agriculture in this area, there has been a continued trend of people leaving the farms and going into industry.

On the system I manage, we now have 266 idle electric services and they are continuing to increase each year.

We are, therefore, anxious to hold the line in our costs of wholesale power. All of the 9 cooperatives in the area just mentioned buy their power from a private power company, with the exception of 1, and they only generate about one-half of the total amount sold to their ultimate consumers.

At a regular meeting of the executive committee of the Kansas Electric Cooperatives, Inc., held February 4, 1958, the committee reaffirmed the following resolution adopted at the Kansas Electric Cooperative membership meeting held February 7, 1957, which was as follows:

Whereas, there is a real need to have a definite program and policy relative to water resources and power development; and

Whereas, the Trimble bill has been endorsed by the electric cooperatives and preference customers: Now, therefore, be it

Resolved, That the KEC Board be authorized and directed to use every means at their disposal to secure passage of the Trimble bill and to encourage our Senators and Representatives to support the Trimble bill.

We in Kansas feel that with the passage of the Trimble bill the allocations of costs for multiple-purpose projects should be given back to and made a responsibility of the Congress of the United States, where it belongs.

We, therefore, request that the committee study and consider this problem and recommend to Congress the passage of the Trimble bill, known as H. R. 7362.

I thank all of you for this opportunity to tell you how we in Kansas feel about this problem.

Mr. EDMONDSON. Thank you very much, Mr. Clendenen.

Do you have any questions, Mr. Chenoweth?

Mr. CHENOWETH. Just one question.

You do not purchase any power at all yourself from the Southwestern Power Administration?

Mr. CLENDENEN. Yes, sir.

Mr. CHENOWETH. All of yours is private?

Mr. CLENDENEN. That is correct, sir.

Mr. CHENOWETH. What do you have to pay for power?

Mr. CLENDENEN. We buy from the Kansas Gas & Electric Co. Our power costs last year ran 5.6 mills per kilowatt-hour.

Mr. CHENOWETH. That is a pretty good rate.

Mr. CLENDENEN. Yes, sir.

Mr. CHENOWETH. Is that the prevailing rate throughout Kansas cooperatives?

Mr. CLENDENEN. No, sir; Farther away from me, Southwestern Power marketing area, the higher those costs. Until you get to the

northwest part of the State, the costs run up. I am not sure, but at least they run up to 12 mills and some places I think as high as 15 mills.

Mr. CHENOWETH. That would be extreme, would it not?

Mr. CLENDENEN. That is correct.

Mr. CHENOWETH. The average would be about 8 to 10 mills?

Mr. CLENDENEN. The average power costs in the State of Kansas run about 8.2 mills.

Mr. CHENOWETH. How does that compare with what the Southwest Power is charging? Do you pay more or less?

Mr. CLENDENEN. We pay less since the 27½ percent increase went into effect.

Mr. CHENOWETH. You are getting your power cheaper than they are getting it from Southwestern Power?

Mr. CLENDENEN. Yes, sir.

Mr. CHENOWETH. That is all.

Mr. EDMONDSON. Thank you very much, Mr. Clendenen.

Mr. CLENDENEN. Thank you, gentlemen.

Mr. EDMONDSON. The next witness will be Mr. Walter Nesbitt, director of the North Arkansas Electric Cooperative, Salem, Ark.

Mr. Nesbitt.

STATEMENT OF WALTER NESBITT, DIRECTOR, NORTH ARKANSAS ELECTRIC COOPERATIVE, INC., SALEM, ARK.

Mr. NESBITT. Mr. Chairman, my name is Walter Nesbitt. I am a director of the North Arkansas Electric Cooperative, Inc., of Salem, Ark.

GENERAL

The North Arkansas Electric Cooperative has borrowed $5,240,000 from the Rural Electrification Administration to build 2,413 miles of line and is now serving approximately 6,500 members in Fulton, Baxter, Izard, Sharp, Stone, and Marion Counties in Arkansas. Principal interest payments to the REA for 1957 totaled $164,339.

ON THE FARM

I am a farmer and for the last few years things have been particularly rough down on the farm. Indeed, so many people have been leaving the area that the cooperative finds itself with 2,675 services that are producing no revenue.

THE DAMS

Both the Norfolk and Bull Shoals Dams are located within the territory allocated to the cooperative by the Arkansas Public Service Commission. The cooperative buys two-thirds of its wholesale power from Southwestern Power Administration. In 1950 the cooperative built its own transmission lines and substations to take power from the main grid of the SPA and paid SPA 5.6 mills per kilowatt-hour.

CHANGE IN WHOLESALE RATES

A few years later we began to hear that the formula for allocating the cost of building the dams was being changed; that a greater proportion of the cost of the projects would be charged to power and a lesser part of flood control and other downstream benefits. Finally, in August of last year, that which we feared came upon us, North Arkansas Electric Cooperative started paying SPA 6.8 mills per kilowatt-hour.

Because of so many farmers leaving the area, those remaining were finding the going difficult, the cooperative was having problems before the SPA rate increase came along. I would not have the committee believe that the wholesale rate increase was entirely responsible for our troubles. The cooperative was maintaining its lines and it was giving good service to its members and it was repaying its debt to the Government on schedule.

But the simple truth of the matter is that the cooperative was not just in position to absorb the increase in wholesale rates.

On December 1, 1957, the cooperative was compelled to increase its rates to members. Prior to December 1 members paid $5.11 for the first 100 kilowatt-hours and $7.60 for the first 200 kilowatt-hours. Now members pay $5.75 for the first 100 kilowatt-hours and $8.75 for the first 200 kilowatt-hours. A $20,000 annual increase in cost of power from SPA forced the increase in retail rates.

Those increases may not seem large, but they are large to the man who does not have the money to pay the SPA rate increase. It is a most difficult matter to explain to farmers. I have always thought I could explain a most difficult problem to a farmer because I speak his language, and he speaks my language and we understand each other. But some of the questions asked when you try to explain this matter to a farmer is: why, of all years, would last year be put to increased rates when both Bull Shoals and the Norfork Reservoir were brim full?

A farmer can understand if the reservoir had been dry and power had to be brought into the area that it would be logical that he would have to pay more for his power.

But with the talk going around of dumped power being available, the generators humming at full speed, it was a most difficult matter to explain to the farmers just why their rates should be increased. Most of them that I tried to explain it to, expressed the opinion that not only was it realistically based on an unrealistic allocation of the cost of building the dam, but some of them even expressed the opinion that it was sort of a dishonest thing to raise the rate when abundant power was available. All of them were agreed that it saddled the farmer and other users of SPA power with an unfair portion of the cost of building the dams.

In the development of the national water resources, I subscribe to the thought that these resources should be developed for the benefit of all the people. It is a great thing—electric power for the farm and home; millions of dollars and sometimes lives saved downstream by flood control. People come from hundreds of miles to fish. I am all for that, but I am opposed to any group having to pay an unfair part of the cost developing the projects.

I believe the Trimble bill will bring about a more equitable distribution of costs of power. I believe it will restore the confidence of a great many people in the fairness of the Government and that it will expedite the complete development of the Nation's water resources.

Mr. EDMONDSON. Mr. Ullman, do you have any questions?

Mr. ULLMAN. No questions.

Mr. CHENOWETH. That was a very fine statement. You say you are a farmer, you talk the farmers' language. You must have been taking a course in public speaking. It was very impressive.

Mr. NESBITT. Thank you, sir.

Mr. CHENOWETH. I have just one question. Was 5.6 mills the first rate that the SPA charged?

Mr. NESBITT. Yes, sir.

Mr. CHENOWITH. And that was in effect how many years?

Mr. NESBITT. From 1950, sir, until August of last year.

Mr. CHENOWETH. Then they raised it to 6.8?

Mr. NESBITT. Yes, sir.

Mr. CHENOWETH. You feel that that rate was not justified?

Mr. NESBITT. We feel that it is based on an unfair allocation for the cost of those structures. We were very happy with that first rate, but not the second rate. I would not say that it was all because of us having to raise our rates, but I would say that it was the last straw.

Mr. CHENOWETH. What about the contract that might have protected you on those rates?

Mr. NESBITT. I do not know, sir.

Mr. CHENOWETH. Will there be someone here who will tell us about the contract?

Mr. NESBITT. Probably so.

Mr. CHENOWETH. That is all. Thank you very much.

Mr. EDMONDSON. Thank you very much.

Mr. NESBITT. Thank you, sir.

Mr. EDMONDSON. The next witness is Mr. T. E. Bostick, the manager of Woodruff Electric Cooperative Corp. in Forrest City, Ark.

Mr. Bostick, we are very happy to welcome you to this committee. I might say with reference to Mr. Nesbitt that we understand he comes from a district of the distinguished chairman of the Ways and Means Committee, Mr. Mills, and we are very happy to have him here.

You may proceed.

STATEMENT OF T. E. BOSTICK, MANAGER, WOODRUFF ELECTRIC COOPERATIVE CORP., FORREST CITY, ARK.

Mr. BOSTICK. Mr. Chairman and gentlemen of the committee, my name is T. E. Bostick. I am manager of the Woodruff Electric Cooperative Corp., of Forrest City, Ark., a corporation organized by the farmers under the laws of the State and Rural Electrification Act, to serve a seven-county area of east central Arkansas with rural lights and power, and to serve approximately 13,000 farm families over 4,000 miles of distribution lines.

I am a board member of Arkansas State Electric Cooperative, organized to service the some 128,000 farm families of Arkansas with rural lights and power, and chairman of the Legislative Subcommittee of the Advisory Committee on Power for the Southwest, and this six-

state area of the Southwest serves approximately 1 million farmer power users. Also, I am a farmer member of our own organization utilizing some 50,000 kilowatt-hours of electricity per year (since the acreage cut) in my own farming operation, which I mention to qualify my statement, and the fact that I do know the value of and the necessity for cheap electricity on the farm.

Mr. EDMONDSON. Mr. Bostick, how long have you been chairman of the Legislative Subcommittee of the Advisory Committee on Power for the Southwest, for this operation?

Mr. BOSTICK. I believe about 3 years.

Mr. EDMONDSON. You are right in the middle of this scrap from the start then, on the question of the rate increase?

Mr. BOSTICK. Yes, sir.

Mr. EDMONDSON. Probably you can shed some light on the questions that Mr. Chenoweth has.

Mr. BOSTICK. Yes, sir. With reference to the question you asked a while ago, that was on the Kerr bill, I believe, in which we appeared here last year and the year before last. There we asked for a freeze on the rates until Congress would have time to make a complete study of the need for any raises and some way that could be devised to keep from raising the rates.

I believe the bill was passed but was vetoed by the President.

As chairman of the committee on rates in Arkansas, we have had a continuous struggle with the power companies on rates since 1938, starting out with 1.2 cents per kilowatt-hour; thence 9 mills, 7½ mills, 6 mills and 5½ mills. These graduations downward have come about only through many, many, slow and painful negotiations with the power companies, and have been in direct proportion to the intensity of the SPA program's participation. It was only through the threat of getting our power through SPA that we were able to bring our rates down at all.

Now with this threat of cheap power from the dams removed, we are at the mercy of the power companies. The yardstick for rates to come from the hydroelectric dams as originally intended by Congress as established thru TVA, Bonneville, SPA, Reclamation, and the Flood Control Act of 1944, is beginning to work in reverse in the SPA area. Rates have already advanced 27½ percent.

Instead of working to bring low-cost electricity to all the people of our country, the Government agencies in power and control are seeking to bring the rate level of public power electricity up to a level the private power companies have advocated and fought for. This fact is forcibly brought out in the SPA area—and it will not stop there. SPA is only the guinea pig. If they succeed here the increase will mushroom.

Unless Congress takes a hand to stop this usurping of power by these Government agencies, who seem to be working hand in hand with the power companies, and then the battle the farmer and the Congress has waged to bring low-cost electricity to every farm is lost—doomed to failure—the public power rate yardstick will become naught. Rates will advance in all areas to a point the small farmer cannot afford.

Since the beginning by the Government of the rate-yardstick program through the hydroelectric projects, the people of the rural areas of our Nation through REA have come a long way—from a national

average of 10 percent using electricity to a 95-percent average. Only through low cost electricity was it possible for this to be accomplished. The economy of our Nation has been enhanced by some $12 billion as a result of the demands for consumer goods by our rural people. Is our Government to stand by and see this necessity of life taken away from its people after it made a deal or commitment to its people to furnish this low-cost electricity, or to furnish the yardstick for same?

Dams have been built, electric power installations made, moneys borrowed by farmer electric cooperatives to construct their own power distribution and transmission lines, as well as generating plants. These moneys have been borrowed by the people of our Nation with the full expectation of repaying every cent with interest, and they have been so doing. Then does it not stand to reason that these same peoples of the Government could expect their Government to keep the faith with them by continuing to sell them power as cheap as possible instead of as high as possible?

We, in Arkansas, negotiated what we thought was a final 10-year contract with the power company about 4 years ago, and were assured that we at least had rate security for 10 years, but were rudely awakened by a letter from this power company in May of 1955 telling us our rates were to be increased 43 percent effective with the next June billing to about 7.5 mills, even in the face of our holding in our files the 10-year contract with no escalator clauses. Are we coming to this same type of business ethics in our Government? Is the Government not going to keep faith with its people?

The power company later, after a battle, told us they would live up to the 10-year contract, but when the contract expired, to expect an increase to around 7.5 mills.

At about the same time, another power company operating in the SPA area increased its rates to approximately 7.6 mills.

The SPA, through Department of the Interior, intended an increase of about 40 percent in 1956 or to about 7.7 mills, but was finally settled on an average of 27½ percent increase after a fight before the FPC. This similarity of pattern is incredible, and without precedent.

Our Government should not become involved in a race by the power companies to bid for this hydroelectric power at the dams, but should hold the line against such a proposal and against such propaganda, and let its people buy this power at low cost as was the original intent of Congress.

We further advocate that the power companies should have this power at the same price after preference customers are taken care of. Then there would be no discrimination. Bring them down to the yardstick level instead of raising the yardstick up to their level.

In 1956 at a hearing before the Assistant Secretary of the Interior, the Advisory Committee on Power for the Southwest, of which I am a member, was told that three agencies of Government, namely, Department of the Interior, Corps of Engineers, and Federal Power Commission, had agreed among themselves on a formula to adjust the costs allocations on these dams of the Southwest as to the percent of total costs that should go to power.

As a result of this newly devised formula, Circular A47, the amount chargeable to power on the Table Rock Dam will be approximately 76

percent of the total cost of the dam. Denison Dam's cost was set by Congress at about 32 percent, 76 percent versus 32 percent.

If a dam cost $70 million without power installations and $100 million with power installations, does it not stand to reason that 30 percent of cost should be allocated to power instead of 70 percent?

Mr. CHENOWETH. May I ask a question right now, Mr. Chairman?

Mr. EDMONDSON. Surely.

Mr. CHENOWETH. My curiosity is aroused. You are better off without SPA in that picture, are you not? You produce your own power and you produce it cheaper. It looks as though the SPA is a disturbing factor in your economy.

Mr. BOSTICK. It was a very important factor in getting our rates down. Now the yardstick is working in reverse. It is now in the position to keep our rates up, so instead of helping us with the new yardstick that the SPA is trying to impose on the people, it is going to raise our rates. In fact, we have had a letter from the power company stating that they were going to raise our rates to around 7½ mills as soon as the contract expired that we now have with them.

Mr. CHENOWETH. If you are successful in the future as you have been in the past with these private companies, I do not think you have anything to worry about. You certainly know how to obtain favorable rates.

Mr. BOSTICK. Sir, we are now at their mercy. We do not have the yardstick any more. The yardstick has been picked up. So now I do not know what is going to happen to us.

Mr. EDMONDSON. You think the yardstick has become an escalator, do you?

Mr. BOSTICK. Yes, sir.

Mr. CHENOWETH. How much of a raise do they threaten you with?

Mr. BOSTICK. Around 7½ mills.

Mr. EDMONDSON. From what?

Mr. BOSTICK. From around 5½; about 2 mills.

Mr. CHENOWETH. That is more than the SPA went up, is it not?

Mr. BOSTICK. Yes, sir. That means we will be picked up around 40 percent over when our contracts expire. We have had that before the committee's rates and also before Arkansas Power & Light Co. We have met with them regarding that very thing and they have told us in no uncertain terms that when our rates expired that was the end of the road; that they were going to raise our rates to around 7½ mills.

Just before we had this battle up here, a year and a half ago, SPA came out with this rate increase and almost at the same time, we received a letter from the power company. Every co-op in the State that buys power from them received a letter stating that our rates would be increased approximately 43 percent.

That rate increase would conform almost exactly with the rate the SPA had intended to put in.

Mr. CHENOWETH. In other words, the SPA is setting the pattern.

Mr. BOSTICK. That is right. So for that reason now we have this threat of this cheap power removed from us or removed from the picture and we are at the mercy completely of the power companies.

The yardstick rates that were intended by Congress, we think from the hydroelectric dams as established through the TVA, Bonneville

Dam, SPA, Reclamation, Flood Control Act of 1944 is actually beginning to work in reverse in the SPA area. Rates have already advanced 27 percent. Instead of working to bring this low-cost electricity to all the people of our country, the Government agencies that are in power now seem to seek to bring the rate level of the public power program up to the level of the private power companies which they have advocated and fought for, for a number of years.

This fact is very forcibly brought out in our area as just explained and we do not think it will stop there. We think that this is only the beginning; that the SPA is a guinea pig. If they succeed here, then this increase is going to mushroom over the country.

We believe sincerely that unless Congress takes a hand to stop this usurping of power by these Government agencies, then the battle, the farmer and the Congress with ways together to bring low cost electricity to the farmer, is lost and doomed to failure completely.

The public power yardstick will become naught.

Rates will advance in all areas to the point that the small farmer cannot afford to use the power.

Since the beginning of the Government rate yardstick and the beginning of the REA, we have come a long way. The farmer has come a long way. The national average was only 10 percent of the farms electrified, and we now have approximately 95 percent electrified.

Is it going to come to the fact that our Government is going to stand by and let the people have this necessity of life taken away from them? Electricity has become the nerve center of our Nation. It controls practically everything that we do. We need this low-cost power in order for the farmer to continue his farming operation and continue his production schedules.

When hardly without exception these dams are major flood control dams, with recreation, soil conservation, navigation, irrigation, water conservation, and reclamation intermingled, then why should electric power—that is supposed under the Flood Control Act of 1944 to be delivered to the people at the lowest possible cost—be made to bear 76 percent, or the major cost of a flood control dam, and be sold to the people at the highest possible cost the public will bear, instead of the lowest possible cost, as was the original intent of Congress?

The objective of the administration seems to be to destroy all forms of public power—and seems to be doing so in many subversive ways such as:

1. Government agencies without congressional authority, changing allocation of costs to power in hydroelectric dam construction which is choking off the desire to construct hydrodams by using this method of cost allocation. It makes the cost of power generated so high (purely a bookkeeping figure) that only the power companies can afford to buy it—but still this costs the power companies nothing. They merely pass this Government sponsored, and private utility inspired, increase on to the people who have to pay the bill or else leave off a necessity of life.

2. A carefully laid plan to raise the interest rates to the cooperatives to 4 percent or more, thereby doubling the interest charge expense from the Government when actually the United States Government through REA made a profit of $47 million on loans to the co-ops to 1956.

3. By further recommending that the Government not lend any more money to the cooperatives, but force them to Wall Street for funds, thereby forcing us into the hands of our enemies, and, of course you know, and we know, what will happen in that case—many electric cooperatives will be foreclosed, and the properties that the people have developed, will pass to the hands of the power companies. This might result in the Government getting its money back as a result of such a foreclosure or it might not—the power companies might decide to doublecross the Government and buy these properties at their own price if these companies succeed in raising our cost of power 25 to 40 percent, and succeed in getting our interest rates doubled—or in some cases more than doubled.

If this should happen, it would mean that our Government had "welched" on a deal it had made with its people—that our Government would be "partners in crime," so to speak, with the money of Wall Street.

Naturally when costs chargeable to power in these dams can be changed at the whim of any governmental agency, it makes unstable the financial stability of the SPA rates, and it follows that they must be adjusted upward accordingly to such a high point that it may become unfeasible to build flood control dams from a power standpoint and we are certain this is the objective the power companies and some others are working for.

The Subcommittee on Public Works reported December 5, 1952:

> The agencies (the three above-mentioned) are operating in considerable confusion in the problem of allocation costs and that the Congress has not been adequately specific in outlining a policy to be followed in cost allocation.

And further the Comptroller General in his audit report to the Congress in 1954, regarding the activities of the SPA said:

> In previous years a jurisdictional dispute has existed between the Department of the Interior and the Corps of Engineers, Department of the Army, concerning the allocation of construction costs of multipurpose projects. We have been informed that general agreement on allocation of costs of multipurpose projects has been reached with the Corps of Engineers. The procedures agreed upon, however, leave unresolved the basic problem of final responsibility for making allocations. We believe that the basis for the difference that existed which were fundamental in character should be resolved with finality by clarifying legislation.

Year after year the Congress receives reports suggesting that something be done to clarify this situation—yet "Rome burns while Nero fiddles."

As a further proof of the need for this bill, I would like to point out that should this proposed SPA rate increase be made effective on my cooperative, it would cost us $116,000 the first year. In previous hearings it was mutually agreed by all parties concerned that the use of electricity would double every 10 years.

Going on this assumption of doubling each 10-year period, the first 10 years would amount to $1,740,000 increase; the second 10 years would amount to $3,420,000 increase; and the third 10 years would amount to $6,960,000 increase, making a total increased cost to our cooperative alone an amount of $12,120,000 over a 30-year period.

Our original investment has been approximately $7 million, so the total increased cost to our cooperative would be $12,120,000 more than our original investment in added operating costs—and merely from wholesale power increased costs alone.

In the whole State of Arkansas the increased cost would amount to $72,720,000 over a 30-year period, which is more than the total amount loaned to the entire group of co-ops in the State.

The following chart will show an estimate of the economic effect on the Southwest area composed of six States should this average increase of 2 mills by SPA be permitted to go into effect in the whole 6-State area:

	Number members	1954 kilowatt-hours bought
Arkansas	127,636	369,000,000
Oklahoma	130,037	382,000,000
Missouri	237,249	850,000,000
Louisiana	103,493	226,000,000
Texas	318,452	1,053,000,000
Kansas	92,476	250,000,000
Total	1,009,343	3,170,000,000

	1954 power costs	Two-mill increased cost, 30-year period
Arkansas	$1,728,000	$72,720,000
Oklahoma	2,213,000	84,000,000
Missouri	7,658,000	182,000,000
Louisiana	1,063,000	56,000,000
Texas	6,391,000	227,000,000
Kansas	2,450,000	52,000,000
Total	21,503,000	601,000,000

Since the foregoing estimate was made in 1955, an actual application of the 27½ percent rate increase instead of the proposed 43 percent has been made to our cooperative for actual use in 1957 at 35 percent load factor.

By using the SPA hyperbolic chart on the present SPA rate, we find that the cost to our co-op would have increased $150,757. We had a margin in 1957 of only $27,611—this increase would have thrown us in the red by $123,145—and the actual $150,757 increase is considerably more than our previous estimate of $116,000. We mention this actual application to show that our previous estimated cost of $601 million as shown by the above chart to the SPA area is low.

Add to this deficit the proposed interest rate increase of 2 percent and this would have cost us, had it been in effect, an additional $132,185, thereby making our deficit $255,332.

We mention all of this to show the pattern that has been set to destroy us.

The total costs of power installation in Denison, Norfork, Bull Shoals, Blakely Mountain, and Table Rock, according to the new cost formula, is at present about $250 million versus an original $150 million. No more moneys have been spent, yet cost allocations have changed under the new formula from the date of the first construction period and fluctuates from month to month or year to year so that no one—unless it's the three governmental agencies—knows what the figure will be next year, or the next, and so on.

Over a period of 30 years, it will cost the farmer members over $600 million, or about 3 times the cost of all the dams in operation and under construction in the Southwest. We do not believe the

Congress ever intended to saddle the farmer with this kind of a financial burden, and make him subsidize all these other activities.

In my humble opinion the increase which has been put into effect by the Department of Interior, through SPA, could be canceled and any need for such an increase could be resolved by doing two things:

1. Raise the amortization period from 50 years to 100 years, or to the pay-out period at the old rates, whichever is the lesser. In the Senate hearings on this same subject, it seemed to be generally agreed to by all parties that the minimum life of a power dam was 150 years, and upward to 500 years. Former Assistant Secretary Aandahl stated his study showed that by keeping present rates in effect that the dams would pay out in 78 years. SPA Administrator, Douglas Wright, concurred in this statement.

2. Go back to the true incremental cost method to figure allocation costs by having the Corps of Engineers figure the cost of any dam including all facilities except power—then, have them figure the cost with power facilities added, and the difference to be the amount to be charged to the power installation.

This is the method Congress directed to be used on Denison Dam.

We do not agree by using this method that the rate would be only one-third mill less than the method as used by the Assistant Secretary of the Interior. It is just not in keeping with the 32 percent allocated cost to power on Denison Dam where the congressional directive was used, and the 76 percent allocated costs to power on Table Rock where he Assistant Secretary's method was used.

SPA was doing fine—paying its way—until the 83d Congress failed to provide it with a continuing fund on which to operate and carry out its commitments. Records of the Congress will show that it was curtailed largely on the testimony presented by the power companies to the committees, and as a result of Congress' failure to provide these funds, chaos followed.

Administrator Wright of the SPA told this committee on June 29, 1956, that the failure to show a good payout status was due mostly to Congress' curtailment which tied his hands, and in addition, low water for 2 years.

Since the 1955 Congress reactivated the old contracts there has not been sufficient time and freedom of action to bring the pay-out position back to normal, and with this new rate it will take until 1965 or 1966 to catch up with the delinquency due to the cost allocation jumping from $150 million to $250 million.

We believe it has been the full intent of the power companies to bring these conditions into being and then after doing so hold up to the people the loss record, without bringing into view all of the facts.

We implore this committee to recommend H. R. 7362, known as Trimble bill, out and do pass, which to our thinking will correct to a large extent the inequities that have been created, and take this rate-increase burden off the necks of our farmer-members.

It will also serve to make more of the flood control projects feasible, will help to make possible the speeding up of the rivers and harbors program, thereby accelerating the employment program so sorely needed, and will help to alleviate a crisis our great Nation is facing.

Thank you, gentlemen, for your time and patience.

It has been said here before, we certainly are not advocating any legislation that would hurt reclamation or any other area. We do want something that will control this and I think it should be brought back to Congress instead of to the Government agencies who seem to be trying to destroy us in some manner. The fact—the facts prove to us that we are just about to be destroyed if something is not done.

Mr. EDMONDSON. Thank you, Mr. Bostick, for a very fine statement.

Mr. BOSTICK. I would like to state one other thing which to my way of thinking would be important.

Here are two things that would relieve the situation. I would like to call attention of them physically to the committee.

One is to raise the amortization period from 50 years to 100 years or to the pay out, whichever is the lesser.

Mr. EDMONDSON. You mean to the use life?

Mr. BOSTICK. To the use life or the period, whichever is the lesser.

At the hearings that we just spoke of in 1956 it was generally agreed and testified to by United States engineers that the normal life of a dam would be from 150 to 500 years. I just cannot see why it should not be extended more than 50 years if necessary, in order to keep our rates low.

No. 2 would be to go back to the incremental method of figuring allocation costs, I just mentioned a few minutes ago.

Mr. EDMONDSON. Mr. Ullman, do you have any questions?

Mr. ULLMAN. I think I want to congratulate you on a very fine statement.

I studied your testimony with a great deal of interest so I can see that your organization has spent a great deal of time in preparation and your statement has a lot of valuable information in it.

I thought our part of the country, Oregon, was the only place where the private power companies were putting the squeeze on REA. We have a little REA operating down in Harney County which happens to be short of transmission facilities to intertie it with Bonneville so it is at the mercy of the power company. So the REA has to pay 9½ mills for its power whereas just over the mountain where the REA gets it from Bonneville, they pay 3½ mills.

The Idaho Power Co. has the same virtual monopoly for power production on the Snake River. They have the cheapest hydro in the country, the same advantages to produce cheap hydro that we have in Bonneville, and yet they are charging approximately three times the rate because they have the monopoly.

I would like to comment further that it seems that the administration and Secretary Benson have a flexible price support for agriculture and also a flexible price support program for REA power, but the flexible program on price supports for farm commodities just keeps working down and down and down, and the flexible support program for REA power has to go nowhere but up. It seems to me to be a highly inconsistent program. If you look through and beyond it, maybe there is a basic consistency involved. That is a political matter that I will not discuss here, Mr. Chairman.

But I do want to commend you people for coming in and testifying on this matter which I consider of the utmost interest, the utmost concern, not only to your part of the country but to my part of the country and all over these United States of America. You are fighting a principle that we are all vitally concerned with.

Thank you, Mr. Chairman.

Mr. EDMONDSON. Mr. Chenoweth.

Mr. CHENOWETH. How long have you been engaged in REA work, Mr. Bostick?

Mr. BOSTICK. Since 1937. I have been in the power business since 1927.

Mr. CHENOWETH. You mean in private power?

Mr. BOSTICK. At one time I was with a private power company. I was also with TVA.

Mr. CHENOWETH. I can see that you have done very effective work. I know that you are too modest to say that you have been largely responsible for the concessions obtained from the power companies, but I am sure that is true.

Mr. BOSTICK. I have had a lot of help.

Mr. CHENOWETH. You have to have good leadership and I know you are providing it.

Mr. EDMONDSON. The next witness is from Louisiana. Mr. A. P. Wood, manager, Valley Electric Membership Cooperative at Homer, La.

Mr. Wood, we are very happy to have you here, sir.

STATEMENT OF A. P. WOOD, MANAGER, LOUISIANA ELECTRIC CO-OP, HOMER, LA.

Mr. WOOD. Mr. Chairman and gentlemen of the committee: My name is A. P. Wood. I am manager of the Valley Electric Membership Cooperative of Natchitoches, La., a corporation organized under the laws of the State of Louisiana and the Rural Electrification Act to furnish electric service to the rural people of eight parishes in north central Louisiana. We serve 16,000 member-consumers in this area.

I am president of Louisiana Electric Cooperative, Inc. This is an incorporated organization consisting of the 13 electric cooperatives serving approximately 110,000 members in the State of Louisiana. Through this organization, the combined effort of the 13 cooperatives is utilized to extend dependable central station electric service to all who desire it at the lowest possible cost.

First, let me state that the rural electric systems, in Louisiana, are in full support of the Trimble bill and its overall objectives.

Mr. EDMONDSON. Are you from the district that our colleague Dr. Long represents?

Mr. WOOD. Yes, sir.

Mr. EDMONDSON. You certainly lost a real champion friend when you lost him.

Mr. WOOD. We are very much aggrieved over it.

All power distributed by the cooperatives in Louisiana is purchased from the power companies operating within the area. In 1956 the cost of this purchased power was $1,419,356, which is 17.5 percent of the total revenue, an average rate of 5.4 mills per kilowatt-hour. For years our cooperatives paid these same power companies as much as 1 cent per kilowatt-hour for power and even though constant negotiations for lower rates were carried on it was only after the extension of Southwest Power Administration service into east Texas, south

Arkansas, and plans were revealed to bring it into Louisiana, were we able to negotiate our present rate.

Our power contracts contain fuel-and-power factor clauses by which the cost of power can be increased within the contract. For several years these increases were not applied in computing our power bills. Then about the same time it was announced that the rates of Southwestern Power Administration would be increased, we were notified by the power companies that these penalty clauses would be applied. From this it is evident that rate changes by the Southwestern Power Administration will affect the rates which the Louisiana cooperatives pay the power companies.

The proposed 7.1 mill rate for Southwestern Power Administration will set the pattern for our rates from the power companies in the future. Based on 1956 statistics, an increase to 7.1 mills would have cost the cooperatives $393,623.86 or 25 percent of revenue and would increase progressively 10 percent per year, which over a 30-year period would amount to approximately $73 million.

This could affect the security of our loans and the cost of electric service to the rural people. Both are of vital interest to the cooperatives of Louisiana.

Confusion within the agencies relative to the authority and basis for establishing a rate for Government installations has caused an unstable situation. We believe that the Trimble bill designed to restore to Congress the power to establish rates and other terms for marketing power in the Southwest will correct this. We respectfully urge this committee, after due consideration, to approve the Trimble bill.

Thank you.

Mr. EDMONDSON. Mr. Wood, you refer to a fuel and power clause. Do you mean a clause in which it provides if there is an increase in fuel that the power rate can be increased? Is that what you mean?

Mr. WOOD. Yes, sir; that is right. Any increase in fuel would increase the cost in power. It is flexible. It is based on the cost of fuel to the company.

Mr. EDMONDSON. Does that clause require an actual showing of an increase of an increased fuel cost to justify the power rate increase?

Mr. WOOD. Yes, sir. The power factor is a penalty for low power and it can be applied. For years they did not apply either 1 of these 2 and it was not until after the Southwest Power announced this increase in rates did they apply this increase.

Mr. EDMONDSON. You felt that they were not justified in going ahead with the increase until the SPA did it?

Mr. WOOD. They could not within the contract. They have contracts that have 2 years and up to 8 or possibly 9 years left. According to those contracts they could not increase the rates.

By these clauses they can have the same effect as an increased rate.

Mr. EDMONDSON. Mr. Chenoweth.

Mr. CHENOWETH. Is all your power purchased from private power companies?

Mr. WOOD. Yes, sir.

Mr. CHENOWETH. Have your dealings been satisfactory over the years?

Mr. WOOD. Yes, sir. We get along nicely with them. We do not have any trouble. The only thing we just hope that we can continue to do so.

Mr. CHENOWETH. In other words, if it had not been for the SPA influence, you would not have had this threat of increased rates?

Mr. WOOD. We would not have it now.

Off the record, representatives of the power company have told us that they gave us this rate to keep SPA power out of Louisiana and they just made it a little bit better than SPA power.

Mr. EDMONDSON. Did you intend for that to be off the record?

Mr. WOOD. I meant that they told me that off the record. They did not give it to me in writing.

Mr. EDMONDSON. Mr. Ullman.

Mr. ULLMAN. Did I understand that the power companies have indicated that they will raise your rates along the same pattern that the Southwestern Administration will raise theirs?

Mr. WOOD. No, they haven't yet. It will be 2 years before we have another contract coming up. I do not think they will say anything about it until the time to renegotiate this contract.

Mr. ULLMAN. Your average for power cost in 1956 was 5.4 mills.

Mr. WOOD. That is the State average.

Mr. ULLMAN. State average?

Mr. WOOD. Yes, sir.

Mr. ULLMAN. As far as you are concerned, this rate will not go up for 1958?

Mr. WOOD. No, it will not.

Mr. ULLMAN. It will not go up because you have a contract?

Mr. WOOD. There may be an incremental cost on fuel in some cases. It just depends on whether the utility company's fuel contracts run out or whether they have to buy fuel at a different rate.

Mr. ULLMAN. There is not much question in your mind as to what would happen when your contract runs out if Southwestern Power goes up?

Mr. WOOD. That is right; yes, sir.

Mr. ULLMAN. That is all, Mr. Chairman.

Mr. EDMONDSON. I have one further question.

Are any of your co-ops in your area in financial distress at this time?

Mr. WOOD. No, sir.

Mr. EDMONDSON. No further questions.

Thank you very much.

Our next witness will be the manager of the Southwest Louisiana Electric Membership Corp., U. J. Gajan. Mr. Gajan, we are happy to have you before the committee.

STATEMENT OF U. J. GAJAN, GENERAL MANAGER, SOUTHWEST LOUISIANA ELECTRIC MEMBERSHIP CORP., LAFAYETTE, LA.

Mr. GAJAN. I am general manager of the Southwest Louisiana Electric Membership Corp., the largest rural electric distribution cooperative in America. We are presently serving in excess of 26,000 farm families and other rural establishments in 8 parishes of southwest Louisiana. I live in Lafayette, La., and our headquarters are in that city.

I am president of the Tex-La Electric Cooperative, Inc., an organization consisting of rural electric cooperatives and municipalities in east Texas and Louisiana.

I am chairman of the Committee on Dams for the southwest area, which is a subcommittee of the Advisory Committee on Power for the Southwest. This advisory committee is a voluntary organization of duly appointed representatives from the States of Arkansas, Kansas, Missouri, Oklahoma, Texas, and Louisiana.

Municipalities are also represented along with some 250 rural electric cooperatives in the Southwest area. Our activities are directed to problems of promoting an orderly and planned development of power supply and power requirements on a wholesale level. Our primary objective is to assure the rural electric systems, in this six-State area, adequate power at reasonable rates. Hence, our appearance before your committee today.

SPA SETS PATTERN FOR LOW WHOLESALE RATES

First, let me say that we are in full support of the Trimble bill and its overall objectives. The problems of reasonable wholesale rates are not new in this area. It dates back to the inception of the rural electric systems in 1937–38. After 20 years of continuous effort, we find ourselves still engaged in a struggle for existence.

Until the inauguration of the Southwestern Power Administration, very little was done by the commercial utilities to supply wholesale power at reasonable rates. With the postage stamp rate, known as SPA's schedule A rate of 5.6 mills per kilowatt-hour at a 50-percent load factor, then, and only then did the commercial utilities grant the necessary relief. The schedule A rate served as the yardstick in wholesale rates structure.

I am convinced, Mr. Chairman just as Southwestern Power Administration set the yardstick for reasonable wholesale rates, it can just as easily set the yardstick pattern in reverse because the Department of the Interior arbitrarily increased the SPA rates by 27½ percent, or roughly 7.1 mills at 50-percent load factor, could well prove to be the future pattern for rate schedules in Louisiana. (I would like to add, Mr. Chairman, that at the present time, no power from Southwestern Power Administration is being transmitted into Louisiana. The mere threat, or the fact that SPA power was available to Louisiana was the motivating force which forced the commercial utility companies to make the schedule A rates available to us.)

OPERATING STATISTICS FOR 1956

According to the 1956 operating statistics published by the Department of Agriculture, the following information is submitted for your study:

State	Number of members	Number of kilowatt-hours purchased
Arkansas	129, 529	345, 569. 727
Kansas	92, 724	308, 333. 080
Louisiana	106, 832	262, 415. 907
Missouri	240, 187	847, 849. 234
Oklahoma	133, 385	457, 447. 236
Texas	328, 901	1, 402, 131. 704
Total	1, 031, 555	3, 620, 746. 888

State	Cost of kilowatt-hours purchased	Extended 1.5 mill increase	Percent power cost to revenue
Arkansas	$1,950,136	$518,354.59	26
Kansas	2,971,298	462,499.62	29
Louisiana	1,419,356	393,623.86	25
Missouri	7,069,023	1,271,773.85	36
Oklahoma	2,819,977	681,670.85	27
Texas	8,711,728	2,103,197.56	33
Total	24,941,518	5,431,120.23	[1] 31

[1] Average.

From the above information, you can readily see that increasing the cost of power 1.5 mills would mean the saddling of an additional burden on the farmers of the Southwest area of $5,431,120.33. Accordingly, wholesale power would average 31 percent of the cooperatives' gross revenue; that is an average.

I would also like to call your attention to another important cost. The average cost of interest to the cooperatives, in proportion to their gross revenue, is approximately 11 percent. Add this 11 percent to the 31 percent cost of power, and it gives you the staggering figure of 42 percent of the gross revenue of the cooperatives in the Southwest area will ultimately be spent for wholesale power and interest. In other words, Mr. Chairman, 42 cents out of every dollar of revenue will have already been dedicated. We do not have a whole lot to play on.

Mr. EDMONDSON. I do not follow you on that. Your interest is costing you 11 percent. You mean your money?

Mr. GAJAN. That is in proportion to the gross revenue. In other words, that is what it figures in a percentage basis. Eleven percent of our gross revenue is paid in interest rates. Thirty one percent of the power cost of our gross revenue is already dedicated. That is what the power would cost us in applying the new rates.

Mr. EDMONDSON. I see.

Mr. GAJAN. So that leaves only 58 cents out of a dollar for us to operate, maintain our lines, and amortize our investment.

In 1956, the rural systems in Louisiana purchased 262,415,907 kilowatt-hours. According to our present rate schedule, as established by the Southwestern Power Administration, we paid $1,419,356. Applying the 7.1 mill rate, which is the present SPA schedule, would have cost the Louisiana systems and the approximately 106,000 farm families an additional $443,796.94. The growth is double in 10 years.

Mr. EDMONDSON. Is this growth that is taking place growth that is taking place in growth of farm families served?

Mr. GAJAN. No, we are losing population in the farms, Mr. Chairman. It is sort of an urban development. Louisiana has become a little more industrialized and people are moving in the urban areas.

Mr. EDMONDSON. Most of your growth is taking place in municipalities that you supply power to?

Mr. GAJAN. No, we do not supply municipalities with power. It is just growth in our area. We just serve the rural people in areas which are immediately adjacent to the city and surrounding the city and also the strictly rural farm folks.

But we do serve a couple of little villages. There is not a lot involved. There are probably 175 or 200 meters involved.

Projecting this over a period of 30 years, including load growth, and using the 1956 kilowatt-hour consumption, would cost the farmers in Louisiana an additional $73,019,941.39.

I would like, Mr. Chairman, to take the liberty of breaking it down into our own individual cooperative's operation. In 1957, we purchased 70,191,653 kilowatt-hours. We paid the commercial utility companies $407,218.57. Using the new formula of 7.1 mills would have cost this system $498,360.73, or an additional amount of $91,542.16 for 1957.

I would like to add, Mr. Chairman, that our rate of growth is considerably accelerated because of our thickly populated area. Our loads are doubling approximately every 5 years. However, in order to be consistent, we will use the average of doubling every 10 years. Accordingly, in a 30-year period, this cooperative could conceivably pay an additional $15,121,892.06. You can see that increasing rates could possible jeopardize the structure of our individual cooperative.

Our gross obligation to the Rural Electrification Administration today is in the amount of $7,635,460.87. From the above information, you can readily see how the payout status of this corporation would be seriously jeopardized.

ECONOMIC RECESSION OF NATION

In the past few years, the agricultural economy of the Southwest area has been jeopardized by weather conditions, which severely curtailed farm production. In the past year, we have had tornadoes, hurricanes, and heavy rainfalls, which practically destroyed all crops. The farmers are not in a position to pay more for their essential electric service. The Nation's economy is presently experiencing a bad recession. The rural people need help. I am convinced the Trimble bill would be instrumental in stabilizing rates, not only for the farm people, but for all the users of electricity in the area. It would provide relief for the farmers of the area.

CONGRESS SHOULD DETERMINE COST FORMULA

In my judgment, one of the basic facts that Congress must face is the trend in Government agencies to usurp the authority and the intent of Congress. On December 5, 1952, the Subcommittee on Public Works reported the following:

> The agencies are operating in considerable confusion in the problem of allocation of costs, and that the Congress has not been adequately specific in outlining a policy to be followed in cost allocation.

The Comptroller General, in his audit reports to the Congress in 1954, regarding the activities of the SPA, said:

> The previous years a jurisdictional dispute has existed between the Department of Interior and the Corps of Engineers, Department of the Army, concerning the allocation of construction costs of multipurpose projects. We have been informed that general agreement on the allocation of cost of multipurpose projects has been reached with the Corps of Engineers. The procedures agreed upon, however, leave unresolved the basic problem of final responsibility for making allocations. We believe that the basis for the difference that existed, which were fundamental in character, should be resolved with finality by clarifying legislation.

Accordingly, we respectfully ask this committee to help correct this confusion by passing the Trimble bill. This bill would do two very important things.

1. Raise the amortization period from 50 years to 100 years. It is the consensus of opinion that the minimum life of a power dam is approximately 150 years and upward to 500 years. Secretary Aandahl stated his recent study showed that by keeping present rates in effect that the dams would pay out in 77 years.

2. Go back to the true incremental-cost method to figure allocation cost by having the Corps of Engineers figure the cost of any dam including all facilities, except power, then have them figure the cost with power facilities added. The difference would be the amount to be charged to the power installation. This is the method Congress directed to be used on Denison Dam. On Denison, the cost allocated by Congress was 32 percent of the total cost. The 76 percent allocated cost to power, on Table Rock, was the amount arbitrarily set by the Assistant Secretary's method.

Unless the Trimble bill is approved by this committee and passed by the Congress, the ultimate effects will be additional increases in wholesale rates, with proportionate increases in retail rates to the farmer-consumers and the area. I am sure this committee is well aware that the farmers are presently in economic difficulties. Saddling an additional burden through increased electric rates could help to bankrupt the remaining farmers.

Prior to this time, the retail rates of the rural electric cooperatives were comparable to the commercial utilities. As such, it was the stabilizing influence in the overall retail rate picture of the electric consumers.

In my judgment, if the cooperatives are forced to increase their electric rates, the commercial utilities will eventually do likewise; costing the Nation's electric users millions of dollars in added costs. It would certainly not be helpful to the economy of our Nation at this time.

PROTECT OUR PRECIOUS WATER

I hope this committee will not lose sight of the fact that if the allocations of cost to power are continuously increased, it will tend to eliminate the future development of multipurpose dams. Therefore, the precious fresh water will be allowed to waste unused into the seas.

I am further convinced that it is impossible to overemphasize the importance of water and water resources development and its relationship to our future economic growth.

The report of the Presidential Advisory Committee on Water Resource Policy, dated December 23, 1956, pointed out that the estimated use of water in this country in 1950 was 185 billion gallons per day. Based on a population estimate of 200 million, by 1967 the estimated requirements would be 350 billion gallons per day. If we consider the revised estimated population of this country in 1957, the estimated water requirements would be between 400 and 450 billion gallons per day. This is considerably more than double the 1950 requirements in just 17 years.

Mr. Chairman and gentlemen of the committee, this Nation is experiencing a crisis. In my humble opinion, the future economic growth and development of our natural resources through multipurpose projects, greatly hinges on the passage of the Trimble bill.

I respectfully urge that this committee give serious consideration and approval to the Trimble bill, in order to preserve our natural water resources—to stabilize rates—and to assure a healthy and economic growth for our great Nation.

Thank you, Mr. Chairman, for the time you have given me.

Mr. EDMONDSON. Mr. Ullman.

Mr. ULLMAN. I want to thank you for your statement and particularly your projection on cost based on the present rate schedule. You are not optimistic enough to think that if we continue to have people operating this system with the same philosophy that we have at the present time that the rate is going to continue at 7.1 mills, are you?

Mr. GAJAN. We hope not, Mr. Ullman. We hope that something can be done where it will get the rural electrification systems and municipalities and all of the customers an opportunity to use the abundance of power at a reasonable rate.

Mr. ULLMAN. I certainly agree with you and I agree that this is very important and we should state this principle in a definite form such as this bill presents it. That is all, Mr. Chairman.

Mr. EDMONDSON. Mr. Chenoweth.

Mr. CHENOWETH. You say you have the largest co-op in the country?

Mr. GAJAN. Yes, sir. We are in a very densely settled area, sir.

Mr. CHENOWETH. In numbers of customers served?

Mr. GAJAN. Yes, sir, in the number of customers. There are federated cooperatives, but for a single cooperative we are the largest. We are just an individual cooperative. I understand there are federated cooperatives which have several cooperatives and they have more consumers and more members.

Mr. CHENOWETH. I thought the largest of everything came out of Texas. Now you are claiming that distinction for the State of Louisiana.

Mr. GAJAN. We consider part of Texas as a part of Louisiana—the east part of Texas.

Mr. CHENOWETH. I know you are doing a great job. I am very much impressed with your statement.

That is all, Mr. Chairman.

Mr. GAJAN. Thank you, sir.

Mr. EDMONDSON. The next witness is from Chillicothe, Mo.

Mr. Ernest C. Wood, manager, Farmers' Electric Cooperative, Inc., Chillicothe, Mo.

STATEMENT OF ERNEST C. WOOD, MANAGER, FARMERS' ELECTRIC COOPERATIVE INC., CHILLICOTHE, MO.

Mr. WOOD. Mr. Chairman and gentlemen of the committee, my name is Ernest C. Wood. I am manager of Farmers' Electric Cooperative, Inc., with headquarters office at Chillicothe, Mo.

Also, I am chairman of the legislative committee of the Missouri State Rural Electric Association, and I am appearing before you generally in behalf of the problems in rural electrification in Missouri

and in the 6-State area of Southwestern Power Administration, hereinafter referred to as SPA.

Primarily, these problems relate to the objects which it is hoped will be accomplished by enactment into law of H. R. 7362, known as the Trimble bill.

The early history of the REA program, at least in Missouri, was one of instability. The cooperatives bargained for power with all possible sources, including the profit-operated utilities, municipal electric utilities, and public power sources.

Too often, the major problems were lack of available power, lack of facilities and/or exorbitant wholesale rates.

One profit utility, selling wholesale power to several cooperatives, promulgates charges ranging from a low approximately 9 mills per kilowatt-hour, to an extreme high of approximately 27 mills per kilowatt-hour.

From both the profit and the municipal utilities there were cases where cooperatives, day after day, were required to literally disconnect hundreds of their rural consumers during periods of the day when the utility system usage was at its peak.

Cooperatives, in instances, purchased costly portable generating units and placed them at utility plants to augment power production.

In far too many instances, power was available at remote locations and cooperatives had to resort to investing in costly high voltage transmission lines or heavy distribution lines, plus stepdown substations.

With many of the cooperatives these handicapping problems had continued to delay achieving economic stability. The cooperatives could not, in good conscience, plan a coordinated program of promoting increased power usage and their rural consumers were not responsive to such promotions.

These, and similar problems, caused the cooperatives to institute plans, in the late 1940's, to insure a more stabilized program of rural electrification. Primary objectives were more abundant and dependable sources of power and at reasonable rates.

Investigations soon led to one dominating conclusion: The power producing facilities for the cooperatives must need be reasonably, if not completely, controlled by themselves. The ultimate decision was to build generation and transmission systems, hereinafter referred to as G. and T.'s.

A contract with SPA, for a coordinated interconnection of facilities, was developed as plans were perfected.

Important in the perfecting of these plans, was the cost of SPA hydropower, as it was incorporated into planned operations of the interconnected system. Planning studies by the co-ops, their consulting engineers, by SPA and by REA all considered the cost of SPA power at the then existing rate of 5.6 mills per kilowatt-hour.

No question as to the permanency of the 5.6 mill rate was raised by any of the cooperating parties. In the background was congressional legislation stabilizing the cost of SPA power by specific approval of the incremental formula of cost allocations, as applied to multiple-purpose projects in the area.

Congress again affirmed area stability of power facilities and power rates when it gave special consideration to the contracts between the G. and T.'s and SPA and, in approving those contracts, in effect approved the basic project cost allocations.

Through these plans and processes the cooperatives had perfected a plan which assured them of abundant power and at a reasonable rate.

By the middle of 1950, Missouri's cooperatives had improved their economic situation sufficiently that fears of defaulting on their loans was largely eliminated.

In the meantime, the efforts of the executive branch to usurp legislative authority, by issuance of executive directives, was projected into the Federal power program with the issuance of Bureau of the Budget circular A–47, dated December 31, 1952.

Among others, A–47 was directed to the attention of the Secretary of Agriculture, the Secretary of the Army, the Secretary of the Interior, and the Chairman of the Federal Power Commission.

The true intent of A–47 was undoubtedly reflected in a statement made by Assistant Secretary of the Interior, Fred Aandahl, in a speech at Fargo, N. Dak., on September 29, 1953, as follows:

> As a word of warning, I would like to forecast that, except in high fuel cost areas, 5 years hence the spread in price between federally produced power and locally produced power, either from steam plants or otherwise, will be much less than it is at the present time.

A–47 accomplishes its purpose primarily by substituting the use of separable costs, remaining benefits allocations formula for the incremental method of allocating costs.

Historically, thei ncremental method was used to establish feasibility of projects in the SPA area for congressional review and approval.

As late as 1953, SPA continued to advocate the use of this method. Its cost allocation report on March 1953 stated:

> In the opinion of this Administration, since the power facilities have been included in this comprehensive flood control program as an incidental purpose or as a byproduct, it is believed that a byproduct method of accounting should be employed in determining the cost of these power facilities. Therefore, this Administration recommends that the investment cost of these other seven projects be determined by use of the incremental flood control basic method of allocation.

Application of the separable costs, remaining benefit method results in substantially higher portions of project cost being allocated to power than does the incremental method.

In a statement dated February 27, 1956, Senator Robert S. Kerr said:

> * * * with respect to seven multiple-purpose projects, in the Southwest, the amount of construction costs allocated to power has risen from $122 million to $200 million. The overall increase is 64 percent * * *. In addition, the revised cost allocation procedures result in the Corps of Engineers being forced to delete hydroelectric features from basically flood control projects in which such features were originally included and authorized.

In Missouri, we have the outstanding example of executive redetermination of cost allocations, without consulting with the Congress, in Table Rock Dam, soon to be completed.

Originally approved as a 100 percent flood-control project, the Congress subsequently approved modification to include power at approximately 26 percent of the overall project cost.

Under A–47 methods of executive processes, the cost of power at Table Rock has increased to approximately 76 percent of the overall project cost.

Arbitrary application of separable costs, remaining benefits methods to basically flood control projects in the Southwest, have not alone resulted in the burdensome increased power costs. A–47 procedures also have resulted in establishment of a 50-year limitation on planned life of facilities. This seems little short of ridiculous in view of the life expectancy of some of the component parts of projects, such as the huge concerete structures which can be expected to remain functional over a period of several hundreds of years.

The tragic result of all this executive manipulation is that it has been applied in the Southwest, where, traditionally, the area suffers intermittently from floods and droughts, where power has ever been short in supply and high in price and where the area economy needs the advantages of low cost hydroelectric energy to support industrial and agricultural growth.

During the few years since our G. and T.'s were built, we have seen floods create situations of overabundance of hydroelectric power, causing operation of thermal power units to be held to a minimum security level. In direct contrast, severe droughts, prior to 1957, created the necessity of operating thermal units at maximum safe overload levels.

Minimizing flood control features is shortsighted in evaluating ultimate benefits of such protection. Not only is the immediate goal of flood control provided for at the level of the capacity of the project, but longtime benefits are provided for in future agricultural and industrial developments, possibly resulting in new industries being started, new cities coming into existence and expansion of existing cities, all in downstream areas formerly unprotected.

Evaluation of this potential should greatly enhance flood control benefits.

The net result of this departure from congressional jurisdiction has been to increase costs of hydroelectric power unnecessarily. Continuation of this policy of burdening SPA power with unreaslistic power-cost allocations, of shortening the repayment period of facilities and of completely ignoring the many other benefits which accrue from the construction of the multiple-purpose projects will result in the pricing of this power beyond any reasonable level of use, and beyond congressional intent.

The unique situation presents itself that the cooperatives can easily be placed in the position of opposing any project which might contain planned power facilities, because the costs placed on the power would be prohibitive.

The destruction of a stable and reasonable power-supply plan, which has been achieved through the cooperative efforts of cooperatives and municipal electric utilities and their Federal Government, can easily be accomplished if the policies resulting from A–47 and related thinking are not halted.

The above, Mr. Chairman, are problems confronting the Southwest area and the Nation, at this time. The Congress must exercise its constitutional jurisdiction in the field of conservation of the Nation's water resources if this raiding of such resources is to be protected from exploitation by selfish interests.

We support and endorse H. R. 7362, introduced by Congressman Trimble, and designed to enable the Congress to prescribe the scope

of investigations and reports to be furnished it with respect to such projects, so that necessary legislative procedures can be accomplished, with a minimum workload being imposed on legislators.

H. R. 7362, if enacted into law, will broaden the scope of project evaluations. All conceivable beneficial purposes will be, and should be, considered in an analysis of any proposed project. The planning for maximum benefits, specifically approved by Congress, will not only provide for building a stable and abundant power-supply program, but in addition will emphasize other programs which can contribute much to the future economy of the Southwest area. Gentlemen, we earnestly solicit your active support of H. R. 7362 that it may be reported favorably and acted upon by the Congress.

Mr. EDMONDSON. Are you from Sherman, Kans.?

Mr. WOOD. No, sir. I am in the adjoining district. They reallocated some districts a few years ago because we lost two of our Congressmen and my county was in Congressman Kenneth's district, but in the redistribution I am in Congressman Hull's district.

Mr. EDMONDSON. I see.

Do you have any questions, Mr. Ullman?

Mr. ULLMAN. I just want to say, Mr. Wood, that you made a very excellent statement.

Did I understand that you buy power from Southwestern?

Mr. WOOD. The cooperative that I manage buys its power from one of the federated G. and T. co-ops, which is the northwest Missouri unit.

Eight distribution cooperatives went together and secured a loan and built the northwest plant, which is a 40,000-kilowatt plant. They built 375 miles of 161-kilovolt line from the plant at Missouri City to the Bull Shoals Dam and also north of the plant to a national load center. We built approximately 600 miles of 69-kilovolt lines to serve distribution substations at load centers.

We operate the plant at the 69-kilovolt line, which is a little different than some of the other G. and T. arrangements. They had operation agreements with the SPA, whereas ours only involves the high-voltage line and we have the operation of a 69-kilovolt system operated by the co-op itself.

Mr. ULLMAN. You have a relatively independent source of supply, then?

Mr. WOOD. Relatively so, other than the interconnecting high-voltage line. This gives us the possibility of integration of two types of power and, of course, standby, as we exceed the capacity of our plant. In emergencies we have our own generation.

Mr. ULLMAN. Do the increases in SPA rates affect you?

Mr. WOOD. It has already affected us.

Mr. ULLMAN. That is all.

Mr. CHENOWETH. The SPA has affected you already?

Mr. WOOD. Yes, sir.

Mr. CHENOWETH. You get your power from the G. and T., do you not?

Mr. WOOD. It is because the basic formula by which our power is determined is predicated on the arrangements of the interchange of power. In other words, there is interchange.

Let me give you an example of the extremes. In 1957 we had flood conditions, at which time the SPA had power spilling over. They asked us to take our generators off the line. We kept one floating at about halfway just for security purposes.

Prior to 1957 there was a drought in the area and we operated the full 40,000 at maximum capacity, which was about 47,000 kilowatt-hours, because the SPA power was down at the bottom of the generating pools and they needed power.

So the contract to take care of those situations provided in our basic rate is predicated on the SPA rate and then the cost of operation of the 69-kilovolt system which is in addition to it.

Mr. CHENOWETH. What do you figure it costs you to produce power at your plant?

Mr. WOOD. That I could not tell you. The manager of the G. and T. is not here and I could not tell you that, sir.

Mr. CHENOWETH. What do they pay for that power?

Mr. WOOD. Our average rate is approximately 9 mills. It is a load-factor-type rate; we are averaging approximately 9 mills now.

Mr. CHENOWETH. That is from the power produced?

Mr. WOOD. In combination. The rate structure and the cost of the 69-kilovolt system.

Mr. CHENOWETH. How do you feel about that rate? Do you feel that is a fair rate?

Mr. WOOD. We do not feel that it is fair. We feel that the arbitrary change in the method of allocation and the arbitrary decision of using 50-year life of facilities was made when all indications are to the effect that both of those could be liberalized.

Mr. CHENOWETH. How does the rate compare with the commercial rate?

Mr. WOOD. As I said a minute ago, there were instances about 4 years ago when commercial sources of power went down as low as 9 mills.

So far as I know, that was about the lowest. In other instances it was up. At least 2 years they were up to 13 and 14 mills.

Mr. CHENOWETH. It is really a preferred rate then?

Mr. WOOD. Yes.

Mr. CHENOWETH. That is all, Mr. Chairman.

Mr. EDMONDSON. Thank you very much.

The next witness is Mr. Truman Green, manager of the Central Electric Power Co-op, Jefferson City, Mo.

STATEMENT OF TRUMAN GREEN, MANAGER, CENTRAL ELECTRIC POWER COOPERATIVE, JEFFERSON CITY, MO.

Mr. GREEN. Mr. Chairman and gentlemen of the committee, Central Electric Power Cooperative owns and operates transmission and generation facilities to serve the rural area of central Missouri.

All our electric power is purchased directly from the Southwestern Power Administration at its scheduled F–1 rate, which is directly affected by the cost allocation to power in the Federal hydro projects.

One method to determine cost allocated to power of the Federal hydro projects is made in an arbitrary manner, as proved by a statement on page 69 of the hearings on power rates, Southwestern Power

Administration, held by the Senate subcommittee of the Committee on Public Works on February 27, 1956.

This statement was made by Mr. Bradley, Interior Department, and is quoted here:

> Regardless of what project it may be, there is no necessary relation between a certain project having one-third of the total cost allocated to power, and another project having 97 percent.
>
> One (method) is the alternative cost of developing a project to serve that particular function, be it power, for instance, of approximately the same characteristics that you would get out of your hydro.
>
> The other (method) that we have been using is value. It doesn't have anything to do with project costs. It represents the best estimates that can be made as to the estimated value of the service being performed.

From the above statement, it is clear that costs allocated to power are arbitrarily set to make a rate as high as the traffic will bear.

These methods of arbitrary decision do not conform to the Flood Control Act of 1944, which is a directive to dispose of the Federal hydro power:

> At the lowest possible rates to consumers consistent with sound business principles * * *.

The present method of cost allocation to power is in direct conflict with law because the rates are based on the maximum rate at which the power can be sold in the area.

We urge passage of H. R. 7362 (Trimble bill) in order to definitely specify a plan for cost allocation instead of the arbitrary methods used by agencies of the Government.

I want to call to your attention the fact that from the hearings that the committee held 2 years ago, there were some statements by the Department of Interior and others that strongly led me to believe that the method of cost allocation is very, very arbitrary in the dams and projects in the Southwest area.

I think probably this morning, the witnesses will also bear out the fact that they are arbitrary for the simple reason that they seem to take different percentages for different projects without too basic a reason.

So for this reason, we are definitely interested in a step-by-step method of guidance for the executive agencies to determine these cost allocations.

Two years ago, when the first proposal of the rate increase was approximately 40 percent, which was the basic reason for having the Kerr hearings at that time, they tried to determine why such a large increase was necessary. Then as you recall a year later, the rate was based supposedly on the same set of facts and it was reduced to 27 percent. So to us, it is certainly an arbitrary manner of establishing the cost that is allocated, which is the basic reason for the rate establishment.

How the allocation gets into the change of rates, is that all of our contracts with the SPA provide that we have to accept an automatic increase when and if the Department of Interior files a new rate increase and it is approved by the Federal Power Commission, that we automatically accept that rate change.

Also, the rate as approved by the FPC now are only approved for a period of 5 years at a time. So we are reasonably sure that unless

the method of cost allocation is stabilized, we can be in for another increase every 5 years. We have no way of knowing.

So we hope that the Trimble bill and its step-by-step method will stabilize the rates and not leave it in the hands of arbitrary decisions.

That is all I have, Mr. Chairman.

Mr. EDMONDSON. Do you have any questions?

Mr. ULLMAN. Mr. Green, is your understanding that the administration has the authority at the present time to use the independent method that this bill provides for?

Mr. GREEN. That is our understanding. In fact, it was so stated this morning that they do have in some instances. What the criterion is, we do not know.

Mr. ULLMAN. That is right. The same is true, I might add, in our part of the country where, in the same abritrary fashion, two almost identical dams have totally different allocations.

For instance, the McNary Dam, which was started under a Democratic administration and finished under a Republican administration. The allocation was determined by the present administration, and they got their allocation of power up to the almost impossible figure of 97 percent on a multiple-purpose dam. So we have the same arbitrary rate which you mentioned.

Mr. GREEN. The SPA rate for 50 percent load factor is approximately 7 mills, nearly 7 mills.

Mr. CHENOWETH. I have heard 7.8 and 7.1 is used.

Mr. GREEN. It is in that range.

Mr. CHENOWETH. Seven is the average?

Mr. GREEN. Yes, sir.

Mr. CHENOWETH. What did you start at?

Mr. GREEN. It was approximately 5½ mills.

Mr. CHENOWETH. Is that the lowest it ever was?

Mr. GREEN. Yes, sir. That basic rate was set out several years ago when SPA first started. My understanding in the way it was established was mainly in an arbitrary manner, simply as a going rate, we will say, in the field. Now they have come along and reestablished it, we think, arbitrarily, again.

Mr. CHENOWETH. Was that pretty well accepted?

Mr. GREEN. It was established at that time as the going rate in the area.

Mr. CHENOWETH. Do you have a contract for a 5-year period now?

Mr. GREEN. This present rate is approved by FPC for only a period of 5 years.

Mr. CHENOWETH. There will not be any change again for 5 years?

Mr. GREEN. No; that is what we understand.

Mr. CHENOWETH. But you are afraid of what is going to happen in another 5 years?

Mr. GREEN. That is right.

Mr. CHENOWETH. That is all, Mr. Chairman.

Mr. GREEN. Thank you very much.

Mr. EDMONDSON. Our next witness is Mr. Floyd Carter, manager, Grayson-Collins Electric Co-op, Van Alstyne, Tex.

STATEMENT OF FLOYD CARTER, MANAGER, GRAYSON-COLLIN ELECTRIC COOPERATIVE, GRAYSON AND COLLIN COUNTIES, TEX.

Mr. CARTER. Mr. Chairman and gentlemen of the committee, I am Floyd Carter, manager of the Grayson-Collin Electric Cooperative, Inc., located in Grayson and Collin Counties just south of Denison Dam, in Texas.

Our cooperative is an average co-op in our area of the country. We serve some 4,500 members, with 1,660 miles of distribution lines.

In February of 1945, again in 1949 and 1950, the Grayson-Collin Electric Co-op was the victim of three severe ice storms and in July 1951, we were forced to raise the rates to our members.

With this gain in revenue and some increase in business, by the latter part of 1953 we could show an operating margin.

Now, after experiencing our periods of disaster in the past, we were now in a position to start setting aside some reserves in a renewal and replacement fund, as well as an emergency fund.

Our business continued to increase through the year 1955 and then it began to more or less stagnate.

Then in August of 1957, being a customer of the Southwestern Power Administration, our wholesale rates were increased some 27 percent to accompany the ever-growing and increasing costs of operations.

As an example, we have taken a stable current month's operation and have gone back for a 3-year period and we have found our increases are thus:

Revenue increases, 21 percent; power cost increases, 84 percent; operating cost increases, 22 percent; increase in taxes, 20 percent.

Now, let us take these percentages and apply them to the next 3 years—1961—in the future, at which time our ultimate note payments to REA will become due—and the picture will look something like this:

Current revenue	$33,051.85
Increase 21 percent	39,992.73
Current power cost	7,963.40
Increase 22 percent	14,652.65
Operating cost	9,854.69
Increase 22 percent	12,022.72
Taxes	649.55
Increase 20 percent	789.46
Depreciation	8,324.95
Interest and principal	10,655.57
Total operating cost with obligations	46,445.35

Therefore, leaving a deficit of $6,452.62 in meeting our total obligations.

I might also call to your attention the fact that our 1957 revenue only increased 2 percent over the 1956 sales.

In our estimate, we are only judging the future by the past. I believe that is the normal procedure, yet some may say that the economic situation will cause costs to stabilize, but you may rest assured that when this happens the revenue figures will be going down.

We might give another example of the effect of the present rate by going back and applying it for our past year's consumption, 1957. In doing so, it would decrease our operating margin to $58,585.62,

thus making it necessary to dip into depreciation reserves to make our principal payments of $67,736.12.

Another determining factor in the future business of the co-op is that we are no longer able to compete with our competitors in our area on some business due to our increasing cost and limitation of power.

Therefore, they are continuing to build into our territory and take our customers.

Also, in Texas, these competitors are delivery agents through wheeling agreements with the Southwestern Power Administration, for our power supply, and that is by no means to our advantage.

The Congress of the United States made it possible for the organization of rural electric co-ops in order that the rural areas of this country might be electrified.

This objective is practically completed, but, to maintain the present rural economy, it seems that Congress should, by law, conserve all available sources and develop all feasible projects to bring power to its people at the lowest possible cost.

Mr. EDMONDSON. Thank you, Mr. Carter.

Mr. Chenoweth, do you have any questions?

Mr. CHENOWETH. No.

Mr. EDMONDSON. Mr. Ullman.

Mr. ULLMAN. No.

Mr. EDMONDSON. Thank you, Mr. Carter.

I would like to get a determination if I could hear from the witnesses who are scheduled with the order of appearance that we have, if there are any witnesses who are here, who definitely will not be able to be here in the morning. I would like to get their names at this time. We are going to continue to sit for another 20 minutes, but I very much hoped that those witnesses we do not get to, can be here in the morning. I know there will be a much larger representation of the committee in the morning to hear you.

If there are any witnesses who are listed with us who will not be able to be here in the morning and want to be sure to be heard this evening, if you will let me have your name at this time, I will be sure to get to you tonight. Are there any in that situation?

If not, we will just continue with the list in the order of appearance that has been supplied to us.

Our next witness is Mr. Milton Potts, who is the manager of Sam Houston Electric Co-op, Livingston, Tex.

STATEMENT OF MILTON T. POTTS, MANAGER, SAM HOUSTON ELECTRIC COOPERATIVE, INC., LIVINGSTON, TEX.

Mr. Chairman and gentlemen of the committee, my name is Milton T. Potts. I am manager of the Sam Houston Electric Cooperative located at Livingston, Tex. We serve the rural areas in nine counties of deep east Texas and the gulf coast.

Two of Texas' major rivers and one smaller one flow through the area served by the cooperative. Only two small water conservation dams have been constructed on the lower reaches of these streams. It is felt by our people where the water is running into the Gulf of Mexico, something should be done to stop this waste of useful water

so vitally needed by industry. We have State river authorities but in most instances they are unable to finance projects which will develop these rivers to their maximum economic value to the area and the Nation.

It is felt by our people that some method of project evaluation should be used which will show the full value of all the useful benefits of these projects to the community and Nation. The benefits we think should be considered are water conservation, flood control, power, recreation, reclamation, wildlife, and any others whose values can be established.

We think the Congress should have the final say on what values should be placed on these useful benefits.

On power, the yardstick used by the Government on power in the Southwest by the Southwestern Power Administration, an agency of the Department of Interior, is now working in reverse, because it is raising the power cost to all preference customers in Texas—some to a very marked degree. And all utilities will ultimately raise their rates to meet the cost of power from SPA.

For example, we are paying 7 mills per kilowatt-hour in the area served by SPA, and the power company in this area has raised our rate from 5.6 to 7 mills on given load factors for our system in this same area. And we are paying an average of 5.59 mills in the area where SPA power is not available when formerly, on the same load factor we purchased power for 5.3 mills.

I would like to digress here and read something to show why it was reversed.

In 1941, we were paying 13.5 mills for our power. In 1944 we were still paying on the same rate, but we had earned a little better rate. It was 12.6 mills. In 1944 we began negotiating with our power companies, and we were able to reduce that rate from one group to 8.25 mills, and another group to 5.6 mills.

The gentleman made reference to Oregon. We had one situation across the river where we were 5.6 and on the other side, we were actually paying 12 mills. There we got it down to 8.25.

I would like to refer to a letter I wrote to Congressman Tom Pickett in 1947. I would like to read one paragraph.

> At the present time we are paying 5.6 mills per kilowatt-hour from the power furnished by the Texas Power Co. and 8.5 purchased from the Gulf States Utility Co. You will notice that the power purchase from the Gulf States Utility Co. is approximately 47 percent higher.

In my statement here, when I say reversed, we get power at 5.9 from the Gulf Utility. We are paying the higher rate for power from the Texas Power Co. We reduced our cost in 1935 when the SPA built 10 lines from the Natchez River to Corrigon, Tex., and at the same time it reduced the rates, not only to the cooperative, not all over the area, but also the cooperative in Louisiana served by the Gulf States Utility Co. to the same rate, even though there was no SPA power in that area.

Briefly, the method of cost allocation to power is such that preference on Government power is no longer effective in holding cost down.

However, we do not think it is so important that we get reduced rates as it is to get full development of our water resources and on with the job.

Our recommendation would be first, Congress be the judge and make the rules in the development of these natural resources with full credit for all useful purpose and particularly recreation which is becoming more valuable each year.

As noted in U. S. News & World Report, over 73 million people visited inland lakes last year.

I am sure the figures are higher this year, because at Denison it was $6,600,000. I was over in Jasper the other day, where there is a little lake, and the drugstore even had outboard motors and were selling them. I did not think I would see that day in east Texas.

Extend the pay-out period on power from 50 years to a longer period of time more realistic to the life of the project as outlined in H. R. 7362.

Thank you very much for your kind consideration.

Mr. EDMONDSON. Thank you.

You know there are a number of bills that Congress has with regard to recreation in an effort to make it more of a factor in justifying these projects.

Mr. POTTS. It is quite a factor. Senator Kerr brought that out in the hearings.

Mr. EDMONDSON. I certainly agree with you that it has revolutionized the way of life of the people that are in the area of those lakes. It has been a tremendous benefit to those areas.

Mr. Chenoweth.

Mr. CHENOWETH. No questions.

Mr. EDMONDSON. Mr. Ullman.

Mr. ULLMAN. I take it that you think your bargaining power increased with private utilities when the availability of SPA power came into your area, is that right?

Mr. POTTS. Congressman, we do not think so. We can document this by the charts that appeared in Senator Kerr's hearings in 1956.

Mr. ULLMAN. I think this has been the universal experience all over the Nation.

Mr. POTTS. That is right.

Mr. ULLMAN. We would not have these cheap rates if it had not been for the advent of Federal power in the country. This can be documented, certainly, in our part of the country, in the Pacific Northwest.

I just want to add one word, that I am one of those who have a bill to give recreation a far greater consideration in the construction of these dams. I am glad that you mentioned the subject, and I know that in the future, as the years go by, these dams are going to become more and more important from the point of view of recreation. We should recognize that now by giving a greater allocation to recreation.

Mr. POTTS. I noticed that by Senator Kerr's hearings. There were 6,600,000 visitors. They spent at least $500 million. I believe one of the engineers estimated that around $60 million was brought into the area of Lake Texoma, due to the dam being there.

Mr. ULLMAN. Our population is mushrooming so fast that in another 40 years we will probably almost double in population. We will be up to 300 million people in this country. The increasing population is going to have to find means of outdoor recreation.

In the future, considering the fact that these dams last for 100 or 200 or 300 years, they are going to be much more important from the point of view of recreation for all of this increased population.

Mr. POTTS. That was definitely shown in the report of the U. S. News & World Report.

Mr. EDMONDSON. There has been a request that we call next Mr. Jack Gambrell, manager, Choctaw Electric Co-op, Hugo, Okla. I am very glad to recognize Mr. Gambrell. He is from the country where my grandfather and grandmother lived for a long time.

Mr. GAMBRELL. Thank you, Mr. Chairman.

STATEMENT OF JACK GAMBRELL, MANAGER OF CHOCTAW ELECTRIC COOPERATIVE, HUGO, OKLA.

Mr. GAMBRELL. Mr. Chairman and gentlemen of the committee, my name is Jack Gambrell, manager of the Choctaw Electric Cooperative, Hugo, Okla. This cooperative supplies rural electric service to over 6,100 farm families in southeastern Oklahoma.

This cooperative is 1 of 5 cooperatives located in southeastern Oklahoma that purchase all of their power from the Southwestern Power Administration.

On August 9 of last year, a 27-percent increase in wholesale power rates was approved by the Federal Power Commission on power sold in the Southwest. Since this increase went into effect, 3 of these cooperatives have had a rate increase from 11 percent to 16 percent to its members.

I might add, my cooperative increased its rates 11 percent, effective March 15.

I believe that a large part of the increase in wholesale power rates was due to the change in allocation costs which have been made after the multipurpose projects were placed in operation.

This 11-percent increase on my project will give us an additional $42,000 per year in revenue. The wholesale power increased cost will amount to approximately to $26,000. In other words, 60 percent of the rate increase was due to increased power costs.

Mr. CHENOWETH. Did you consider increasing your rates to take up that difference?

Mr. GAMBRELL. Part of it is necessary due to the increase in operational costs because of the inflationary trend.

Mr. CHENOWETH. You would have had some increase regardless of the rate?

Mr. GAMBRELL. Yes, sir.

Mr. CHENOWETH. Thank you very much.

I appear before this committee urging your consideration of legislation which would set out the will of Congress of the allocation of cost on multipurpose projects in the Southwest.

I would like to call this committee's attention to the reasons why I believe legislation is needed for this purpose. In order to do this, I would like to use for the purpose of this discussion the Denison Reservoir, which is located some 60 miles west of Hugo, Okla., on Red River between the States of Oklahoma and Texas. I would like to do this for the reason that I am probably more familiar with the Denison project than the other projects in the Southwest area. The Denison project is a multipurpose project constructed by the Corps of Engineers to achieve three basic purposes:

1. Flood control.

2. Downstream pollution control.
3. Navigation on the lower regions of the Red River.

This project was authorized by Congress to achieve these three basic purposes. When these three purposes were accomplished, it was recommended by the Corps of Engineers, and approved by Congress, that additional benefits could be achieved by the installation of power facilities in this project.

The Congress of the United States directed that the power facilities to be installed in Denison be allocated on the incremental cost method. This means that the Denison project has allocated for power facilities $19,827,000 of the total project cost of $62,208,000.

Power will pay 32 percent of the total cost of this dam. These power facilities will be repaid to the Federal Government within 50 years at 2.5 percent interest.

In addition to the three primary purposes of the Denison project, we find it is currently being used for water supply for Denison, Sherman, and Dallas, for which no cost allocation was made. In addition, no consideration was given for recreation benefits; yet last year over 8 million people visited this great project.

Mr. EDMONDSON. Would you tell me, is the Government being reimbursed for Denison, Sherman, and Dallas?

Mr. GAMBRELL. After I made my statement I realized that Dallas does not, and I am not sure about Denison.

Mr. EDMONDSON. Do you know about Sherman?

Mr. GAMBRELL. I am sure they do not either.

Mr. EDMONDSON. They do not make any?

Mr. GAMBRELL. No.

Mr. EDMONDSON. Is this an auxiliary supply?

Mr. GAMBRELL. It is the main supply for Denison. It is supplemental for Dallas.

We find the same method of cost allocation has been used on the Norfork Dam. The cost of this allocation was approved by the United States Congress and cost allotted to power amounts to $14,920,000 out of a total project cost of $30,230,000 or 49 percent of the project cost.

Since these two projects have been completed, the Government has completed, or will complete, several additional projects in this area. Of the remaining projects, Congress has never determined the proper allocations of cost and as a result, the cost allocations have been left to the executive branch of the Government.

We now find that the allocated power costs go as high as 76 percent of the total costs of Table Rock Dam. Yet these dams are designed for the same purposes as the Denison and Norfork Dams.

The executive branch of Government at the present time is using what is called the separable cost remaining benefit basis for cost allocation. However, in reviewing the study made by the Corps of Engineers on these projects, I find that the type of projects to be built was determined by the three basic purposes outlined above. After the necessary provisions were made in the projects, in order that these benefits might be achieved, power facilities were added as a supplemental benefit to the projects. But under the existing method of cost allocations we find that power is placed on the same level as flood control and must carry its share of cost allocations.

Overlooking the fact that power was installed as a supplemental benefit, I feel that the proper authority for the allocation of power cost rest with the Congress of the United States.

This is further indicated by all of the reports and audits of the General Accounting Office which outlines the need for a clear-cut policy concerning cost allocations, repayment periods, and rate of interest to be repaid to the Federal Government.

All competent engineers have testified that the life of all these projects now constructed or under construction in the Southwest run from 100 to 500 years. I believe that Congress should determine the number of years that these costs are to be amortized, as well as the interest charges to be paid. If present policies continue, then we, the purchasers of this power, will never know what is expected of us in the payment of our power bills.

It is the present policy that as these cost allocations are changed, such costs be figured from the date that commercial operations are first started.

In other words, it is necessary that we not only pay this amount on future purchases but must also pay for the years when the projects operated on a different formula.

I do not believe that you gentlemen would like to buy a suit for $75, then a year later get a statement for $10 for additional production cost that the seller did not know about. Yet this is the condition that we find ourselves in today.

What is to be the policy of the Federal Government, once the power facilities have been repaid to the Federal Government? Is the power produced at these projects to be given to the people in the area? Personally I think not, nor do I believe the people in the area expect it.

We would, therefore, urge that the Congress of the United States consider these questions, and it is my belief that after proper study that you will conclude that some action is needed and necessary in order that the purchasers of this power might know the rules of the game and what is expected of them in the repayment of these costs to the Federal Government.

We feel that these policies must be determined by the Congress, rather than the executive branch of the Government. We know that as long as the present policy is allowed to continue that changes in the method of cost allocations will be made. We, therefore, ask Congress to make the rules under which we participate in the repayment of these facilities.

Thank you, gentlemen, for your time and patience.

Mr. EDMONDSON. Thank you, Mr. Gambrell, for a very fine statement.

I might say it was a statement that adds just one more page to the book of evidence that we have inconsistencies and unfairness in our cost repayment policies on construction of these multipurpose projects.

Certainly, while I personally favor the principles set forth in the Trimble bill and recognize that some people disagree with those, I do not think anybody can disagree on the fact that there is a need for a clearer congressional hearing on what this repayment should be and what the allocation policy should be. It is just a pity that we do not have a larger membership of the committee here to hear

these statements. I personally hope that the people who are here as witnesses, who are being asked to come back in the morning, will appreciate the fact that one of the main reasons we want you to do that, is to have more members of the committee hear what you have to say, because I think it is a message that we should get to as many members of this committee as possible.

Judge Chenoweth, do you have any questions or comments?

Mr. CHENOWETH. No, I just want to join with you, Mr. Chairman, in complimenting the witness on a very clear-cut and a very impressive statement.

Mr. GAMBRELL. Thank you, sir.

Mr. EDMONDSON. Mr. Ullman.

Mr. ULLMAN. I just want to say that you have greatly contributed to the hearings with your specific examples of this allocation puzzle which has been thrown at us by the administration in the last few years.

Thank you, Mr. Chairman.

Mr. EDMONDSON. The Subcommittee on Irrigation will stand in adjournment until 10 o'clock in the morning.

(Thereupon, at 4:30 p. m., the subcommittee recessed, to reconvene on Friday, March 28, 1958, at 10 a. m.)

WATER RESOURCES DEVELOPMENT CRITERIA

FRIDAY, MARCH 28, 1958

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON IRRIGATION AND RECLAMATION,
OF THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, D. C.

The subcommittee met at 10 a. m., in room 1324, House Office Building, the Honorable Wayne N. Aspinall (chairman of the subcommittee) presiding.

Mr. ASPINALL. The Subcommittee on Irrigation and Reclamation, House Committee on Interior and Insular Affairs, will now be in session for the further taking of testimony on bill H. R. 7362.

The first witness to be called this morning is Mr. Angus McDonald, legislative representative of the National Farmers Union, with offices in Washington, D. C.

We are glad to have you with us this morning, Mr. McDonald.

Mr. MCDONALD. Thank you, Mr. Chairman.

Mr. ASPINALL. You may proceed.

STATEMENT OF ANGUS McDONALD, COORDINATOR, DIVISION OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. MCDONALD. Mr. Chairman and members of the committee, I am appearing here in support of H. R. 7362 which would establish criteria for utilization by the Secretary of Interior in determining the feasibility of constructing any reclamation project. This legislation is in accord with the views of the National Farmers Union as expressed by the farmers in local, county, State and National conventions over a period of many years.

I call attention to resolutions passed and approved unanimously at our biennial convention in Denver, Colo., in March, 1958:

1. COMPREHENSIVE REGIONAL DEVELOPMENT

We urge further Federal development of natural geographic areas such as entire river valley basins to promote better use of all natural resources for all purposes. We favor enactment of legislation to establish a coordinated Great Plains Administration. Separate regional developments of this type should be coordinated, both with respect to river valley considerations and to national economic policies.

Small watershed flood prevention and agricultural soil, water, and related resources conservation programs must be continued and expanded, both before and after establishment of such valley developments. Such development programs should include but not be limited to intensification and expansion of existing conservation programs on both private and public land; reforestation and revegetation to protect watersheds and increase timber and forage; increased appropriations for conservational management and development of all resources;

and construction and maintenance of timber and stock access roads in national forests. We must make use of all scientific and technological advances to increase conservation of all natural resources. The destruction and depletion of our land and our forests must be halted.

2. DEVELOPMENT AND REGULATION OF ENERGY AND POWER

We urge enactment of clear-cut Federal legislation and policies to establish clearly Federal responsibility to produce, regulate, and control public power through programs of area development on the basis of all-inclusive support of a total national program.

We urge enactment of legislation to require the Federal Power Commission to license only those projects which are best adapted to improving or developing the water resources of a river basin to obtain by integrated operation the maximum amount of net public benefits consistent with good business principles.

Regional development agencies should be established to assure proper use of Federal hydroelectric power and provide for optimum conservation and development of all multipurpose uses and benefits, including water for cities, industry, flood control, irrigation, recreation, and navigation.

We endorse the sound policy which provides that water is to be used for navigation only to the extent that such use does not conflict with such other purposes as domestic and municipal consumption, pollution control, irrigation including ground-water recharge, industrial consumption, hydroelectric power, generation, and wildlife and recreation needs.

Violation of the Federal preference clause by the Department of Interior by a policy of deceit and subterfuge which includes refusal to sell Federal power to cooperatives and municipalities must be forestalled. All limitations on areas served by nonprofit electric utilities should be removed.

We urge the enactment of legislation prohibiting Federal agencies from turning over any economically feasible power sites such as Hells Canyon to private companies which would interfere with or prevent comprehensive development.

The excess lands provisions governing the use of water in Federal irrigation projects in the Federal reclamation law should be preserved.

The Department of the Interior should be prohibited by law from arbitrarily substituting one system of cost allocation for another. Also, the period of amortization should be increased from 50 to 100 years.

I further call attention to a statement submitted to the Senate Public Works Committee on March 15, 1956, which related to legislation designed to freeze electric power rates of cooperative consumers administered by the Southwestern Power Administration. I call attention to facts recounted in this statement which indicated that the Department of the Interior and the Southwestern Power Administration had administered the preference clause of the 1944 Flood Control Act to the detriment of cooperatives and other nonprofit users in the area. I further suggested that the administrators having failed in their attempt to reduce the cooperatives to a state of complete dependency upon the private electric power monopoly by denying them their right under the preference clause had changed the basis of cost allocation which would have increased power cost to the cooperatives by about 40 percent. As we interpret the legislation under consideration here, under sec. 13, the Department of the Interior would be precluded from changing the cost allocation formula from the incremental to the separable cost-remaining benefits method. I quote from the statement submitted to the Senate committee:

Finally, we come to the most urgent matter under consideration by this committee—that is the proposal of Southwestern Power Administration to increase power cost of the cooperatives by about 40 percent. * * * The method used to obtain this increase is the substitution of one system of cost allocation for another. The system of cost allocation presently used and used from the inception of the Southwestern Power program is the so-called incremental method which requires power users to pay for that part of the cost which results because of

the electric power installation. For example, if it costs $50 million to build a dam for flood control purposes only, and if it requires an additional $50 million to add electric power features, electric power users are only required to pay for that part of the facilities needed to produce power. This hypothetical example suggests a dual purpose dam only.

The method which is proposed now is the so-called separable cost-remaining benefits method. As we understand it, a separable cost for each purpose equals the difference of cost of the multiple-purpose project and the cost of the project with the purpose omitted. The joint costs equal the difference between the cost of the multiple purpose project and the total separable costs for all purposes proposed. I refer the committee to a document published by the Federal Inter-Agency River Basin Committee of Proposed Practices for Economic Analysis of River Basin Projects prepared by the Subcommittee on Benefits and Costs, May 1950, page 55.

The following table was copied from this document:

"*Allocation of costs by separable costs-remaining benefits method—general case*

"[In thousands of dollars]

"Item	Flood control	Power	Irrigation	Navigation	Total
1. Benefits	$500	$1,500	$350	$100	$2,450
2. Alternate cost	400	1,000	600	80	2,080
3. Benefits limited by alternate cost (lesser of items 1 and 2)	400	1,000	350	80	1,830
4. Separate costs	380	600	150	50	1,180
5. Remaining benefits (items 3—4)	20	400	200	30	650
6. Allocated joint cost [1]	18	360	180	27	585
7. Total allocation (items 4+6)	398	960	330	77	1,765

"[1] In this example, the total joint costs to be allocated ($585,000 in line 6) are 90 percent of total remaining benefits ($650,000 in line 5). Therefore each purpose is charged with joint costs equal to 90 percent of its remaining benefits. The same results will be obtained by using distribution ratios (percent of each item in line 5 to their total)."

Under the old formula $600,000 in the example was allotted to power but under the new calculation $960,000 would be allotted to power. In other words, power users using the separable cost-power method of allocation would have to pay 60 percent more for their power, other factors remaining constant. Perhaps the selection of this formula at this particular time when Congress has attempted to remedy the serious situation in the Southwest and reactivate all the contracts gives us a clue as to why Mr. Aandahl prefers this formula. Although it may be argued that the Inter-Agency Committee recommended that the separable cost remaining benefits methods be used in future reports, it emphasized the point that it would not recommend a combination of averaging cost allocation methods. In other words, the committee did not recommend that the ground rules be changed after a project was in actual operation, set up, and all details in regard to amortization and rates were worked out. I call attention to the recommendation of the committee on page 56 of the Inter-Agency Committee's report:

"Where cost allocations are required, the separable cost-remaining benefits method is recommended for use in all future reports of Federal river-basin-development projects. While variations of this method may be necessary to meet special or legislative requirements in some cases, the use of a combination of cost-allocation methods or the averaging of the results of several methods is not recommended."

Our preoccupation with cost allocation formulas stems from the fact that we feel strongly that maximum development and conservation of water, soil, and other resources is not only in the interest of our farmers but will redound to the benefit of all of our citizens and to the Nation as a whole. History of the past few years indicates that administrative agencies beset with bureaucratic jealousy and apparently fearful of development if carried on by the Government have, intentionally or unintentionally, lost sight of congressional policies. This bill would, as other witnesses have indicated, "reassert the con-

trol of Congress over water resource policy and say to the administrative agencies that the real purpose of a water resource development program is to develop water resources. * * *" We likewise agree with the National Rural Electric Cooperative Association witness that the power to decide our policies must remain with Congress and not with administrative agencies.

We therefore respectively urge this committee to approve H. R. 7362 in order that the country may get on with the job of resource development which has been lagging during the years this administration has been in power. We point to the fact that countries behind the Iron Curtain have been going full steam ahead with resource development and that in the years to come unless our resource programs are accelerated, that the United States will eventually be left behind in regard to resource development and particularly in regard to hydroelectric and atomic power capacity.

Mr. ASPINALL. I have only one question at this time, and that has to do with the resolution which your group adopted recently. It reads as follows:

> The Department of the Interior should be prohibited by law from arbitrarily substituting one system of cost allocation for another. Also, the period of amortization should be increased from 50 to 100 years.

The last sentence is understandable. The first sentence does not clear up the position you have taken.

Are you favorable to either one of these many different methods of fixing cost allocations provided the method which is used and determined upon at the beginning is carried through to its conclusion; or are you here stating you favor any particular formula to be used in this particular manner?

Mr. MCDONALD. We favor the allocation formula as set forth in this bill which I believe is the incremental formula, which simply means that the power allocated——

Mr. ASPINALL. We understand what it means, all right, but can you say of your own knowledge that that particular formula is suitable in all instances in all water development projects? Are you in a position to state that?

Mr. MCDONALD. I am not an expert in this field, Mr. Aspinall, and I frankly do not know whether it would be applicable in all projects or not.

We have studied the Southwestern Power projects. I am informed by Dr. Blalock, who is an expert, that this formula would be applicable in projects generally.

The other formula, it seems to me, the one which was applied in the Southwest, was resorted to after they had been paying under the old formula for some years. They suddenly changed under the new one to increase the rates and they arbitrarily increased their rates.

Mr. ASPINALL. This is what bothers me. Your statement starts out this way:

> I am appearing here in support of H. R. 7362 which would establish criteria for utilization by the Secretary of the Interior in determining the feasibility of constructing any reclamation project.

Yet this has to do with the Southwestern Power Administration. We understand the position of the Southwestern Power Administration, but are you sure that the statements which you have made and

the resolution which you have quoted go to reclamation as such or do your statements go to Federal power, flood control, and some areas where they rule?

Mr. McDONALD. That resolution, as I interpret it, applies to all multipurpose projects, all reclamation projects.

Mr. ASPINALL. But you are not in a position to pick out one formula and state whether incremental cost or separable cost or any benefits or whatever it may be are applicable in all instances.

Mr. McDONALD. I would say that the incremental formula should be applied to all multipurpose projects.

Mr. O'BRIEN. No questions.

Mr. ASPINALL. The gentleman from Nebraska.

Mr. MILLER. It seems to me, Mr. McDonald, that your opening statement does establish criteria for utilization by the Secretary of the Interior in determining the feasibility of constructing or modifying any reclamation project.

Do you understand they have a fixed formula now, or is that formula flexible, to apply, for instance, to various projects under the law?

Mr. McDONALD. My understanding of what the Department of the Interior has been doing in the last few years is very limited. I do know what they did in the Southwest and I assume they can do that in any area of the United States. They can change the formula and put in any old formula they want.

Mr. MILLER. You think they should be prohibited from making any change under the formula. In other words, what suits Southwest should suit Northwest.

Mr. McDONALD. I would say yes with regard to multipurpose projects in accordance with this bill.

Mr. ASPINALL. What you are saying is that after a project is once studied under one formula and authorized and built under that formula, then you are not in favor of a change. Is that what you mean to say?

Mr. McDONALD. That is what I am saying here, yes, sir.

Mr. MILLER. You are not saying they should all be built under one formula. You would permit the Secretary of the Interior to have some leeway to fit the formula to the project.

Mr. McDONALD. I am also saying, Dr. Miller, that they should be built under the incremental formula, should be amortized under the incremental formula, if they are multipurpose projects.

Dr. MILLER. You think the same formula should apply to all projects?

Mr. McDONALD. Yes.

Dr. MILLER. Then there would not be many projects built.

Mr. McDONALD. Unless it is primarily a power project or primarily something else.

Dr. MILLER. Unless you permit the Secretary some flexibility to fit these different feasibility formulas to different projects, you probably would not have very many projects built. You cannot have an arbitrary formula as you suggest without some flexibility applied to various projects.

Mr. ASPINALL. Let us take the instance of irrigation primarily, where a project is authorized as an irrigation project. A dam is built for that purpose and power becomes extinct and power control becomes incidental.

Under your formula, and remember that the reclamation law was for irrigation primarily, are you going to state that that irrigation user will have to bear all of the expense and the primary expense, the building of the dam and all that goes with it, and all the power will have to assume is the incremental that comes to them, and all that flood control will have to assume is just the incremental?

You see, this works two ways.

Mr. McDONALD. I would like to amend my position, then, with regard to irrigation. There should be some flexibility with regard to using revenues derived from power for irrigation purposes.

Dr. MILLER. If you use incremental for flood control, for production of power, and for irrigation purposes, who will pay for the project?

Mr. McDONALD. The Government is going to pay for flood control or navigation or any other purposes such as recreation which might be allotted to the cost.

Dr. MILLER. If you use the incremental for all three then you have no money to build the project.

We are in a lot of trouble in the eastern part of the country. The Western States have been coming in with liberal formulas for building these projects. If you make these projects too liberal without any reimbursable funds we will certainly run into trouble when we try to get them approved in the House or in the Senate because of the large amount of nonreimbursable funds.

If you use the same formula of nonincremental payments on all three, then you have no money to pay for the project itself.

Mr. McDONALD. I would like to make my position clear to the committee.

We are opposed to this method resorted to by the Department of the Interior in saddling onto power users an undue proportion of costs. I think that is what has been going on.

Dr. MILLER. Do you not realize that the basic law of reclamation, however, requires that irrigation comes first and that power revenues are used to help aid the reclamation project? Do you agree with that?

Mr. McDONALD. I agree with that in accordance with my amendment in previous testimony in response to Mr. Aspinall, but in regard to no other purposes would I divert power revenues. I think the taxpayers should pick up the check with regard to flood control and navigation and other purposes.

Dr. MILLER. You doubt whether they should on power revenues so far as reclamation is concerned?

Mr. McDONALD. I think they have been paying for substantial parts of irrigation. We are in favor of that policy of subsidy. That is what it is.

Dr. MILLER. In some projects that is true.

Mr. McDONALD. That is with regard to irrigation. I refer to relaxation of the interest charge, and so on.

Dr. MILLER. Your organization, of course, feels that in the production of Federal power the preference clause on distribution of the power should be followed? I refer to the preference clause on rural electrification, and so on. They should get the first chance on power?

Mr. McDONALD. Yes, sir.

Dr. MILLER. Do you know whether or not that has always been followed in the past 10 years? Do you know whether it has been followed in the Southwest Power Administration?

Mr. MCDONALD. In my opinion, Mr. Wright and Mr. Aandahl, in administering this——

Dr. MILLER. Before that time.

Mr. MCDONALD. You said in the last 10 years. I am trying to answer your question. I think the law has been violated in the Southwest by the present administration.

Dr. MILLER. I notice you say that, but what about previous administrations where they let long-term contracts to private and commercial users for this power at less than the cost of production? I am not talking about this administration but past administrations who let long-term power to aluminum companies at less than the cost of production with no right to the Rural Electrification to reclaim that power.

Mr. MCDONALD. I assume you refer to the Reynolds contract in Arkansas. That was a defense measure. I am not familiar with the details of it, but I think the aluminum company had the United States Government over a barrel. They needed this for defense purposes, and they signed that contract in an emergency. I am not trying to justify it but I think that was the circumstance.

Dr. MILLER. Do you think it should have lasted for 25 years, no chance to get preference power for the REA? That was another administration. You are blaming this administration for maladministration, but before the war even started past administrations were letting long-term contracts on Federal power not only to Southwest Power but in the Pacific Northwest which could not be recouped, giving power at less than the cost of production, giving it to private groups with no reference at all to the right of the preference customer to claim that power.

Do you agree with that policy?

Mr. MCDONALD. I do not agree with that contract. I think it was a mistake. I think it may have been forced on the Government to sign such a contract, but I think it was a bad contract.

They still have that power and they are raising the rates now because of the subsidy, I guess it is the subsidy, to Reynolds and some of the other companies down there.

Dr. MILLER. They are getting power at a rate now which is less than the cost of production, so the REA's have to assume payment of these subsidies to Reynolds Aluminum Co., long after the war is over, on a contract which is not reviewable. You would not agree with that kind of administration, would you?

Mr. MCDONALD. No, sir.

Mrs. PFOST. No questions.

Mr. ASPINALL. The gentleman from Arizona.

Mr. RHODES. On page 2 you state, "Violation of the Federal preference clause by the Department of the Interior by a policy of deceit and subterfuge which includes refusal to sell Federal power to cooperatives and municipalities must be forestalled."

Do you have any instances of such deceit and subterfuge?

Mr. MCDONALD. Yes, sir. In my testimony which I gave to the Senate committee you will find that. This is the Senate Public Works Committee, February and March of 1956, pages 554 to 562.

Mr. RHODES. I do not have time to read this.

Mr. MCDONALD. In this testimony, Mr. Congressman, I give about 8 or 10 instances where municipalities principally were denied the power to which they were rightfully entitled.

Mr. RHODES. Is this throughout the country or in one area?

Mr. MCDONALD. This is the only documentation I have of that statement at hand.

Mr. RHODES. Can you answer some questions on it?

Mr. MCDONALD. I can dig up other instances.

Mr. RHODES. Can you asnwer some questions about it? You gave that testimony before. Do these instances occur in one area of the country or do they occur throughout the country?

Mr. MCDONALD. I think the Missouri Basin criteria of 1953, August of 1953, was a plan to deprive the preference customers of their rights under the preference clause.

Mr. RHODES. How did that work?

Mr. MCDONALD. They were required to estimate their power needs over a period of years ahead and to use power in the present, or the near present, where they did not need to pay for it, and it is a rather complicated arrangement.

Mr. RHODES. There is a recapture clause in all the contracts for power which is sold to private companies?

Mr. MCDONALD. This was one of the things in the Missouri Basin criteria. They eliminated the recapture clause.

Mr. RHODES. That is not my understanding of the Missouri Basin criteria at all. I understand there is a recapture clause.

Mr. MCDONALD. We call it the withdrawal clause. That was eliminated in Mr. Aandahl's Missouri Basin criteria in 1953.

Mr. RHODES. Are not most of these contracts for relatively short periods of time?

Mr. MCDONALD. I am not too familiar with the existing contracts.

Mr. RHODES. That is the only instance that you have at hand right now of any deceit and subterfuge on the part of the Department. Is that correct?

Mr. MCDONALD. I mentioned a number of instances recounted in this testimony.

Mr. RHODES. But you did state before the Missouri River formula went into effect that the Department asked the preference customers what power they should use now or in the foreseeable future. Is that correct?

Mr. MCDONALD. Yes.

Mr. RHODES. Would you call that deceit and subterfuge? In other words, the Department had to sell the power to somebody. Preference customers could not take the power, so do you not think——

Mr. MCDONALD. If they did not get it now they said they would not withdraw it. They said they could not get it back.

As we interpret the preference clause, it is designed by Congress to be a flexible arrangement whereby if the needs of the cooperatives expand greater than anticipated they can come in and they can get the power.

Under the Missouri Basin criteria, a rigid formula was set up where they had to estimate some time in advance as to what they would need. Of course, they did not know what they would need in 5 to 10 years from then.

Then there was a great outcry, and I talked to Mr. Aandahl myself about this with some of our farmers. He denied that he would insist on 20-year contracts. Nevertheless, that was the original proposition.

Mr. RHODES. The words "deceit" and "subterfuge" to me are pretty dirty words. They involve underhanded tactics, an intent to deceive. I want to ask you again if you have any instances in which those particular tactics were used by the Department, or where there was an intent to deceive or where there were some underhanded tactics used.

Mr. MCDONALD. Yes, with regard to the four directives which Congress set up with regard to the G. and T. contracts, the continuing fund, reactivation of the contracts.

Mr. RHODES. You say the G. and T. contract?

Mr. MCDONALD. Generating and transmission cooperatives, G. and T.

Congress provided four conditions, set down four conditions, for the reactivation of these contracts.

On pages 558 and 559 of this testimony I recount how Mr. Aandahl and his associates got around the directives of the Congress, and I think you can characterize that as a policy of deceit and subterfuge.

Mr. RHODES. Were the cooperatives informed of the intent of the Department to interpret these laws in the way they finally interpreted them?

Mr. MCDONALD. Well, the Department just ignored the directives of Congress as long as they could, apparently.

Mr. RHODES. Of course, this committee is perhaps the best body to decide whether or not the Department has gotten around the intent of the law.

I think what you mean here is that you do not agree with what they have done so you are using a couple of pretty dirty words to characterize a policy you do not agree with.

Mr. MCDONALD. I think when Congress laid down the policy, the administrator should carry out that policy.

Mr. RHODES. I do, too, but they are not guilty of deceit and subterfuge if they make an honest interpretation of a law of Congress with which you do not agree. I object to the use of the words.

Let us go on a little bit.

Mr. MCDONALD. It may be, Mr. Congressman, they are the wrong words, but the effect, regardless of the interpretation of their motives, is the same. The result is the same. Whether they were consciously deceitful or not, I do not know.

Mr. RHODES. If you do not know, you should not have used the words.

All limitations on areas served by nonprofit electric utilities should be removed.

What do you mean by that?

That is the last sentence of the same paragraph.

Mr. MCDONALD. I am looking at this trying to figure out what our resolutions committee did mean in that sentence.

Mr. ASPINALL. Might the Chair state that except for the last paragraph of this resolution, the resolution does not apply to the legislation which is up before us.

Mr. RHODES. I realize that, Mr. Chairman, but we seem to have gotten into the subject and I know of no way to get out of it except to find out what the statement means.

Mr. ASPINALL. I sympathize with my colleague. The question by my colleague is in perfect order.

Mr. RHODES. Thank you.

Mr. MCDONALD. As I said, I am just trying to figure out what that sentence means myself. In spite of the fact that I spent 2½ days with the resolutions committee and went over this with a fine-tooth comb, I——

Mr. RHODES. Mr. McDonald, I admire your frankness.

Let me ask you if you think it means this: Do you think it means that any electric utility which is nonprofit should be allowed to parallel the lines and invade the territory of existing private utilities?

Mr. MCDONALD. Yes, I think that might underline what was in the minds of the people who composed this sentence.

Another thought has occurred to me, that there has been some objection in various areas of the United States because towns have grown out and into areas served by the cooperatives, and perhaps the final thought of what is behind this sentence is that. I know that in Texas, and other places, too, the cooperatives have been prohibited from serving small towns.

Mr. RHODES. Would you tell me who prohibited them from doing that?

Mr. MCDONALD. The State of Texas.

Mr. RHODES. There is nothing we can do about that, is there?

Mr. MCDONALD. No, sir.

Mr. RHODES. There is nothing the rest of the members of this committee can do about it.

Mr. MCDONALD. That is right. When we pass these resolutions, naturally we do not just pass resolutions which apply to the Federal Government. Whether or not the Federal Government could do anything about this particular situation, I am not sure.

Mr. RHODES. So far as cognizance of this committee of the resolution is concerned, we can strike that sentence, then. Is that right?

Mr. MCDONALD. As it pertains to this legislation, yes, sir.

Mr. RHODES. That is all, Mr. Chairman.

Mr. ASPINALL. Mr. Edmondson.

Mr. EDMONDSON. As I understand it, what you have done in this statement is to present to the committee your complete resolutions on the subject of regional development and development and regulation of energy and power, and some of those items and resolutions are extraneous to this particular legislation and some of the items pertain to it.

What you did was to supply us with complete rseolutions of your convention on the subject matter. Is that right?

Mr. MCDONALD. That is true, sir.

I must confess it has been only a few days since these resolutions were passed, and I just could not resist the opportunity of getting a little free Government printing here so that when we had these questions I could point to the printed volume which will come out of this committee and I can say, "There are our resolutions on power development, all of them."

I realize now that was a grave error.

Mr. ASPINALL. If the gentleman from Oklahoma will yield for an off-the-record remark.

(Off the record.)

Mr. EDMONDSON. I have no further questions, Mr. Chairman.

Dr. MILLER. Coming back to this low rate in the Southwest, I wonder whether the witness feels that this committee or the Congress might well take steps to perhaps amend the contract which now is in existence with Reynolds Aluminum where the preference customers are forced to carry the aluminum company because they are getting power at less than the cost of production.

Would the witness, and the gentleman from Oklahoma, so long as it affects his State, go along with the idea of the committee trying to bring about some change?

Mr. EDMONDSON. I think the gentleman from Nebraska knows that so far as the gentleman from Oklahoma is concerned we would like to call the whole thing off on those contracts, but we know of no legal way to do it.

Mr. CHRISTOPHER. If you would yield at this point, I will assure the gentleman from Nebraska that I would be glad to support such legislation to overhaul that contract with this committee and on the floor of the House, but I would like to ask the gentleman from Nebraska if he would be willing to support such legislation.

Dr. MILLER. I plugged for it for a good many years.

Mr. CHRISTOPHER. Good.

Mr. ASPINALL. Mr. Thomson?

Mr. THOMSON. You are the national representative for the Farmers Union here and consider matters as they affect all of the States. Is that right?

Mr. MCDONALD. With regard to power, yes, sir.

Mr. THOMSON. Power and resources?

Mr. MCDONALD. Yes, sir.

Mr. THOMSON. I think we should have your position clarified on testimony concerning this bill.

At one point you stated that in your opinion it was the position of your organization that the incremental formula should be applied to all multipurpose projects.

Then I understood you to indicate that upon further reflection you did not think it should be applied to multipurpose projects constructed in the 17 Western States under reclamation. Is that correct?

Mr. MCDONALD. Well, the amendment of my statement concerned the diversion of power revenues for irrigation purposes. That would not affect, I guess, the actual setting up of the formula allotting so much power.

But anyway, I do think it was the original purpose of the Congress over a period of many years that these reclamation projects or irrigation projects should be in part subsidized.

Mr. THOMSON. From power revenues?

Mr. MCDONALD. The money had to come from somewhere, power was a lucrative source, and it has been in actual practice. A good deal of our money has been diverted to irrigation.

Mr. THOMSON. Then you agree with the policy that so far as reclamation is concerned the water conservation features should be reimbursable and the power revenues should be used to cover the part that irrigation cannot pay?

Mr. MCDONALD. Yes, sir.

Mr. THOMSON. So far as the flood control projects in any of the rest of the States is concerned, I understand it is your position that only the cost of putting in the generation facilities, any additions to the dam that might be necessary, transmission lines should be recovered from power revenues. Is that correct?

Mr. MCDONALD. Yes, sir.

Mr. THOMSON. The cost of the power features on a dam will be about the same whether they are built by the Department of the Interior or built by the Army engineers, is that so? Generators cost the same whether you put them in 1 of the 17 Western States or whether you put them in 1 of the States where projects are being constructed by the Army engineers. Would you agree with that?

Mr. MCDONALD. Yes, sir.

Mr. THOMSON. As a result it would seem to me from your statement that you in effect are saying that less should be paid for power in all of the other States except for the 17 reclamation States where the power is produced by Federal agencies. Is that not the net effect of your statement?

Mr. MCDONALD. It could work out that way if you diverted your power money to irrigation, yes.

Mr. THOMSON. If power does not pay for the multipurpose projects in the other States, exclusive of the 17 reclamation States, that will be charged to flood control and navigation. Is that not correct?

Mr. MCDONALD. Yes, sir.

Mr. THOMSON. And that will be paid for out of the general tax revenues of the United States collected from all of the taxpayers. Is that correct?

Mr. MCDONALD. Yes, sir.

Mr. THOMSON. You are nodding agreement there. Is that statement correct?

Mr. MCDONALD. Yes. I do not think, Mr. Congressman, it makes any difference where the project is built if it is a flood control project. Flood control cost in the East will be the same as it is in the West, I believe. It will be paid out of general revenues in either instance. I think that is the point you were getting at.

Mr. THOMSON. As to resource development, you know that in these Western States there is a large amount of natural resources to be developed, mineral, timber and other items. Is that correct?

Mr. MCDONALD. Yes, sir.

Mr. THOMSON. If we are to be required to pay for our own water conservation, are we not being placed in a position as taxpayers of guaranteeing lower costs of power in the states outside of our area?

Mr. MCDONALD. When you say "our area" you mean the East?

Mr. THOMSON. Any of the States except the 17 Western States, the 17 reclamation States.

Mr. MCDONALD. Of course, we look at resources development from a national point of view. We feel that the development in the Tennessee Valley, for example, has helped the entire United States. Billions of dollars of electric appliances have been sold as a result of the TVA.

The western development about which much has been said in the last few years has helped the East immeasurably.

If you have prosperity in the West they will buy the textiles and manufactured products of New York and other areas.

The West has been somewhat in the position of a colony, an agricultural colony having to buy from the eastern manufacturers, and that position has been somewhat alleviated by our great reclamation programs over the last 50 years, and at the same time the East has become more prosperous as a result of that.

Mr. THOMSON. Without getting into the merits or lack of merits of the contest of Southwest Power, which is outside the scope of this hearing, nevertheless within the State of Wyoming, which I have been privileged to represent, an aluminum company is seriously considering undertaking an aluminum development near Sheridan, Wyo.

When it comes to aluminum, power is a very important element of the cost. Is that not correct?

Mr. MCDONALD. Yes, indeed.

Mr. THOMSON. Do you think we should be in a less favorable position to develop that industry or to have our area developed by reason of the power rates and to pay taxes to make for cheaper power rates some place else?

Mr. MCDONALD. We certainly in these resolutions and throughout our history have emphasized the need for cheap power. We want power as cheap as you can get it.

At the same time we have realized the need for irrigation. It is a problem, yes.

Mr. THOMSON. Your organization represents farmers in the 17 Western States, does it not?

Mr. MCDONALD. Yes.

Mr. THOMSON. Do you think those farmers in the 17 reclamation States should have to pay more for the power that they use on their farms and in their cost of production than farmers in other areas?

Mr. MCDONALD. We are in favor of power being sold to farmers at just as low a rate as possible consistent with good business practice as it states in section 5 of the 1944 Flood Control Act. That is the whole point of my testimony here, a good deal of it, at least, getting power rates down as low as possible.

When you have irrigation in connection with power you have a problem there.

If you divert some of the money for irrigation, naturally your power rates will not be as low as they otherwise would be.

Mr. THOMSON. It seems you are locked in the horns of a dilemma.

If you apply the incremental formula, then you tend to make the upper Colorado project infeasible under existing law.

On the other hand when you say do not apply it there and apply it some place else, I cannot see how you are representing the farmers of my area, for example, when you put them in an unfair competitive position or that you are looking after the resources of the other farmers on a fair basis.

Mr. MCDONALD. It is a dilemma. There should be some leeway in setting up these formulas in instances such as you have indicated.

Mr. EDMONDSON. I think if the gentleman will look at paragraph 3, page 2, he will find his apprehension about the effect of this on a project like the upper Colorado probably is not based on the language of the law at all.

Mr. THOMSON. I fail to see how that affects our discussion at all.

But going back to one other thing with regard to the Missouri Basin situation which you commented upon, I happened to be in the

area at the time you referred to here. Is this not what happened with respect to this: Mr. Wright and Mr. Aandahl said "I can see where the demands of the cooperatives will be greater than we have power available to give you in the future," and then turned around and said to private utilities, "On a projected basis and in an orderly fashion we will cut down on your power, the power delivered from Federal projects, and you will be expected to generate that power yourselves or acquire it from other sources."

Mr. McDONALD. Of course, I wasn't there, Mr. Congressman, but I do know there was great apprehension among the cooperatives. They went so far as to hire a very able attorney, Mr. William Wise, and the ensuing controversy and arguments resulted in a hearing before Mr. Langer's committee. The National Farmers Union called a national power meeting partly because of the Missouri Basin criteria——

Mr. ASPINALL. Please talk to the rest of the committee, Mr. McDonald.

Mr. McDONALD. I was just speaking in generalities, not having the definite information which the Congressman had inasmuch as he was out there.

I do know there was great excitement and great apprehension throughout the Missouri River Basin with regard to the Missouri Basin criteria, and I do know that Mr. Aandahl and his associates did change and modify on November 10 or 11, of 1953, that criteria because of pressure from the cooperatives.

Mr. THOMSON. As a matter of fact, in order to properly operate these projects you have to sell all of the electricity off the project which it is possible to sell at one time. Is that correct?

Mr. McDONALD. That is correct.

Mr. THOMSON. And if the cooperatives cannot use it all at the present time the thing to do is to on short-term contracts make it available to others and let the cooperatives come in and take up in an orderly fashion giving private utilities some advance notice that they will have to look elsewhere for their supply.

Mr. McDONALD. That is correct. However, the worry of the cooperatives was a good deal over the withdrawal clause which Mr. Aandahl took out. They told me, and Mr. Aandahl denied this, they would not be allowed to come in a year from now or 2 years from now and get some of this power which had been contracted for with the private utilities. The people there said they could not get a satisfactory agreement.

There were speeches and written documentary material which indicated that was the Department of the Interior policy, that they would not agree to a withdrawal clause which would protect the rights of the cooperatives under the preference law.

Mr. THOMSON. That is all, Mr. Chairman.

Dr. MILLER. Do you know of any instances where there has been a refusal to sell Federal power to cooperatives and municipalities?

Mr. McDONALD. Well, in the Southwest, yes, sir, there were some instances.

Dr. MILLER. Is that not just sold to the private power company which was under contract entered into 10 or 12 years ago? Have they actually refused to sell Federal power outside of that which has been contracted?

Mr. McDONALD. In the Southwest and particularly to municipalities. We look on the municipalities on the same basis as the cooperatives and nonprofit.

Dr. MILLER. To whom did they sell it?

Mr. McDONALD. They were selling power to the private power companies and to the cooperatives. Mr. Douglas Wright at several points during this period notified a town in Oklahoma and several other towns that they would not get any more power after such and such a date.

I have it here in this documentation in this book. I cite a half dozen instances where the Southwest Power Administration refused to sell power to cooperatives and to the municipalities to which they were rightfully entitled.

Dr. MILLER. Who is the Southwest Power Administrator?

Mr. McDONALD. I suppose Mr. Wright is the Administrator.

Dr. MILLER. Is it public or private power?

Mr. McDONALD. That is an Administration which was set up under the Department of the Interior to market power from Federal projects in that area.

Dr. MILLER. Public power and not private power, is it not?

Mr. McDONALD. That is correct.

Dr. MILLER. That is all.

Mr. SISK. I have no questions.

Mr. WEAVER. You state, "We urge the enactment of legislation prohibiting Federal agencies from turning over any economically feasible power sites such as Hells Canyon to private companies which would interfere with or prevent comprehensive development."

Your position, then, is that you favor public development at the expense of all the taxpayers as opposed to private development and private enterprise regardless of the merits of private enterprise?

Mr. McDONALD. I consider comprehensive development as a standard. There are perhaps thousands of projects throughout the United States which should be developed privately. An estimate has been made in the Northwest. I have forgotten the figure. There are several hundred up there. The Army engineers who have studied every river basin in the United States tell us that should not be developed publicly because the purposes of comprehensive development would not be served.

But we say where they should be, and I believe it is under section 10 of the Federal Power Act, they are supposed to be, but we desire additional legislation to make sure where you would get piecemeal development instead of comprehensive development or partial development that the Federal Government get in and develop the project.

If the Idaho Power Co. would provide the storage and would provide the other multipurposes called for in the Army engineers' plan with regard to Hells Canyon we would say "Go to it. If you can give us 4 million feet of storage and these other things, go to it and develop it."

But the Idaho Power Co. doesn't want to do that. It wants to build a little low head dam and forever ruin this last great remaining public power site in the United States.

Mr. WEAVER. I do not want to get into the merits of Hells Canyon Dam. My question was whether you favor any private development.

From the statement you have made apparently your language certainly was inappropriate here considering the text of this resolution. It appears to me you are strictly for public development regardless of the merits of any private development.

Mr. McDONALD. I think, Mr. Congressman, if you read that resolution carefully, it states: "Any private development which would prevent comprehensive development."

There are many projects which should be built privately which would not prevent comprehensive development at all.

Mr. RHODES. What would you say to a situation where it appeared to be to the best interest of everybody concerned, including the power users, for the Government to enter into a partnership with a private company? Would your association then oppose such a provision?

Mr. McDONALD. We favor a partnership between the Federal Government and the American people, not a partnership between the Eastern Corp., the Idaho Power Co., and the Federal Government.

Mr. RHODES. I didn't have that in mind. I was speaking generally as to the concept of partnership. I prefaced the statement by saying where that could be demonstrated to be for the benefit of all the people and the power users, also.

Mr. McDONALD. If a partnership is for the benefit of all the people we certainly would be for it.

Mr. WEAVER. In other words, then, you would say in many, many instances private enterprise should come into the picture and development should be by private interests?

Mr. McDONALD. Yes, sir.

Mr. ULLMAN. Mr. McDonald, I want to take this opportunity to comend you and your organization for the very farsighted position you have taken for multipurpose development of our great western resources. The limitations of this bill in my opinion do not warrant our going into the various aspects of this.

I commend you, also, for the position you have taken that we should broaden our viewpoint on our western natural resources and establish a new resources policy which would take account of as many advantages as they can.

It is too bad that this bill is not broad enough to include those items, but I am pleased that you were here. I just want to ask you one question in this bill which provides for a 100-year payout on these projects. Is your organization in favor of this 100-year payout proposal, changing it from 50 to 100 years?

Mr. McDONALD. It seems to us sensible when a project will last several hundred years that it is more realistic to amortize that project over a period of 100 years rather than 50 years. The project will be paid for at the end of 50 years and someone has said that is when the profit to the United States Government would come in.

We have said a great deal here about the taxpayers paying for flood control and other multipurpose projects. The Government would begin to get its money back then on flood control, but some projects may last 200 years and for all I know, 300 or 400 years.

In order that power rates be less, and for other reasons, we suggest 100 years instead of 50 years.

Mr. ULLMAN. In particular, is this not true of projects such as we have in the Pacific Northwest where up to 97 or 98 percent of the cost

is attributable to power and where the Government gets a return on the full interest on its investment?

Mr. McDONALD. Yes, sir.

Mr. ULLMAN. These projects will last 300 or 400 or 500 years. Does it not seem to you a more businesslike proposition that we recognize the fuller life of the project?

Mr. McDONALD. Certainly.

Mr. ULLMAN. So you favor this part of the bill?

Mr. McDONALD. Yes, sir.

Mr. ULLMAN. That is all, Mr. Chairman.

Mr. HALEY. Mr. Chairman, I do not believe I have any questions, but I would like to make an observation.

Mr. McDonald just a few moments ago projected what would happen 300 or 400 years from now. I wish I had that kind of a crystal ball myself so I could see that far ahead.

Your statement is that these projects should be paid for over the life of the use of that project.

Is it your contention that 400 years from now you will be generating electricity by water?

Mr. McDONALD. I believe so. The question has many implications.

I worked on atomic energy a little, Mr. Congressman.

Mr. HALEY. Pardon me.

Mr. McDONALD. I worked on atomic energy a little bit in my work. Not being an expert on anything I am not an expert on atomic energy, either. However, it is my understanding that the scientists believe that in years to come, possibly 400 years from now, nearly all of our energy will come from that source.

Mr. HALEY. You think it will take 400 years?

Mr. McDONALD. I have to say I do not know.

Mr. HALEY. That is all, Mr. Chairman.

Mr. ASPINALL. Thank you very much.

The Chair has this to say; when witnesses appear before this committee they are supposed to be expert upon all the matters contained within their statements.

Strange as it may seem, some of the public might not realize it, some of the committee know little about the problems up before it.

When we find some of the statements by a witness for or against a project we want to be sure the witness understands the situation.

I am sympathetic with Mr. McDonald and the position he finds himself, but you should not take up that whole resolution because it is not involved. It has taken an hour and a half of our time and we are not through yet because our colleague from Missouri has the right to question.

The Chair recognizes him at the present time.

Mr. CHRISTOPHER. I have no direct question I want to ask Mr. McDonald but I would like to refer to a question that Dr. Miller, the gentleman from Nebraska, asked Mr. McDonald.

He said, "Do you know of any instances where hydro power has been refused to municipalities or cooperatives?"

I do not know of an actual instance where it has been refused, but municipalities and cooperatives can be denied the use of public power from the dams without a refusal.

I have here before me the Ozark Mountaineer, published at Branson, Mo. The editor states:

Bentonville, Ark., hooks up with public power.

Then it states further:

It took 4 years of hard effort to get this new public power supply.

This was mostly through the hard work and efforts of Congressman James W. Trimble, who is the author of the bill we have under consideration.

But actual construction was not started until late the following year, due to the reluctance of the Department of the Interior (under which SPA operates) to proceed.

Here is the paragraph which worries me.

This reluctance has now crystallized into a firm regulation that henceforth public power will not be furnished to a public customer, such as a municipality or rural electric cooperative, unless that customer has its own steam-generating plant, to match, on a 3-to-1 basis, its own thermal units with those of SPA.

Bentonville, as a consequence, marks the last of Ozark's municipalities to get public power unless they have generating facilities. Many communities own their own distribution systems but few possess such facilities or are in financial condition to build them. This means that under this new regulation—

I do not know whether it is now in existence or not, but I intend to find out—

public power will be denied them, thus making them "captive" to the private companies now supplying them. (This statement likewise applies to rural cooperatives.)

The regulation, arbitrarily adopted, is squarely against the public policy of Congress, announced when it authorized the comprehensive program for the development of the White River Basin (where already Norfolk and Bull Shoals Dams are completed, Table Rock soon will be, and Greer's Ferry has been started). That policy is that public bodies—municipalities and cooperatives—are to be given preference in the purchase of the hydro power generated in the basin, regardless of whether they possess steam-generating units.

It was because of this public policy that Bentonville is securing public power. It is because of this new departmental regulation that no other Ozark community or cooperative (unless owning thermal capacity) will be able to do so.

I wanted to make that a matter of record so others on this committee here would help me run that thing to earth and see whether the editor of that paper is sound in his statement. If he is, it is something we all worry about.

Mr. MILLER. Will the gentleman yield?

Mr. CHRISTOPHER. I will yield.

Mr. MILLER. I am sure as a good businessman the gentleman realizes if you are going to have public power there is a difference between firm power and dump power. If you are going to depend upon the public institutions to furnish all the power and say to the municipalities they need not have any steam-generating plants, then, of course, you run into trouble.

I can understand at times that public-power agencies all have surplus power. They have to get rid of it, maybe at a low cost. I think that is where some of our aluminum plants come in. They are supposed to buy it as dump power, yet they use it as firm power.

If you are going to expect the public agencies to have power sufficient for all the time, without anyone having some surplus power, or standby power for their own needs, then you are going to have a pretty

big public-power agency developing power and then there will be a lot of times when the equipment will not be used at all.

Mr. CHRISTOPHER. I think the gentleman from Nebraska realizes, also, that it is hardly right and proper to say to a city, town, or an electric co-op, that unless you do have steam-generating power you cannot have any current from the public dam, and another thing I think the gentleman from Nebraska will recall——

Mr. MILLER. The dam is not sufficient——

Mr. CHRISTOPHER. If you will excuse me, another thing the gentleman from Nebraska will recall is the furor that goes up whenever REA co-ops seek to borrow the money to build a steam-generating plant. I have been through 2 or 3 of those hassles on the floor of the House, and the gentleman from Nebraska through a lot more than I.

Mr. MILLER. We just finished in Nebraska building a good, big cooperative steam-generating plant to firm up power we could not get from the Government.

Mr. CHRISTOPHER. I compliment the gentleman on having some good things in Nebraska. I wish we could have more of them in other parts of the United States.

Mr. MILLER. I am sure that you would not expect the Federal Government to have standby power at all times to meet the needs of all the people who might want electricity.

Mr. ASPINALL. May the chairman state that we will have more of this when we get into executive session.

Thank you, Mr. McDonald.

Our next witness will be Mr. Clyde T. Ellis, general manager of the National Rural Electric Cooperative Association, accompanied by Mr. Charles A. Robinson, Jr., staff engineer, National Rural Electric Cooperative Association.

STATEMENT OF CLYDE T. ELLIS, GENERAL MANAGER, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. ELLIS. Mr. Chairman and gentlemen of the committee, my name is Clyde T. Ellis. I am general manager of the National Rural Electric Cooperative Association, which is the national service organization of the REA-financed rural electric systems in the United States and Alaska. Approximately 92 percent of all REA electric-type borrowers are members of the association.

WHAT IS OUR INTEREST?

Those persons and organizations which have participated in the formulation of H. R. 7362, and now advocate its passage, represent the rural electric cooperatives, public power districts, public utility districts, and municipal electric utilities throughout the United States. These organizations have an immediate and substantial interest in preserving a Federal water-resource program designed to provide an abundant supply of low-cost water and electricity for their consumers and for all consumers across the Nation.

The electric utility business is the fastest growing major industry in the Nation today. Total installed electric-generating capacity is doubling every 7½ to 10 years, and the loads of the rural electric systems, which constitute a relatively small, but we believe important,

segment of the industry, are doubling every 4 to 5 years. Approximately one-half of all rural electric systems now obtain all or part of their wholesale power from Federal multiple-purpose projects. And our people are vitally affected by the availability of adequate water, for a growing part of rural electric system load throughout the West is comprised of irrigation pumping—water for increased agricultural production.

We are, therefore, most anxious to preserve our existing Federal water resource development program, and to foster policies and laws which will encourage its growth and development in the future.

A MIRE OF TECHNICAL GOBBLEDYGOOK

H. R. 7362 is, therefore, our effort to gain legislative approval of progressive statutory standards to govern the administrative agencies in formulating multiple-purpose project justification and cost allocation procedures. It is an attempt to reverse a trend which, during the past several years, has brought about the adoption of administrative practices which if allowed to persist will obscure the real purposes of Federal water resource development, and substitute for these purposes a labyrinth of involved technical phraseology, ostensibly needed to measure the desirability of multiple-purpose project development, but actually calculated to prevent it.

If enacted, H. R. 7362 would cut through this mire of legal and technical gobbledygook. The bill would reassert the control of Congress over water resource policy and say to the administrative agencies that the real purpose of a water resource development program is to develop water resources and not to offer technical excuses for nondevelopment. The bill would set progressive standards of project evaluation and cost allocation, would once and for all place project planning on a comprehensive multiple purpose regional basis and would make available at reasonable cost, to those who purchase the services, the benefits from the reimbursable features of such projects.

THE POLICY IS FOR CONGRESS TO DECIDE

Gentlemen, a Federal multiple purpose water resource program is desirable from the standpoint of economic and social development, or it is not desirable.

But the power to decide our policy must remain with the Congress and not with the administrative agencies. If we are to proceed with development by the Federal Government of our water resources, then there is a burden upon the Congress to establish an appropriate statutory policy to guide the administrative agencies. If the Congress decides that Federal development of water resources is not desirable, then it is for the Congress to tell the administrative agencies to stop the program.

What we have experienced during the past several years is an attempt by these agencies to decide for themselves that Federal development of water resources is not very desirable in most cases, and we have watched the adoption of administrative practices designed to carry out such a policy.

COST ALLOCATIONS

The evidence will clearly show, I believe, that of recent years the administrative agencies responsible for Federal water resource development have adopted a cost allocation procedure designed to support the highest possible rates for Federal wholesale power sold to the rural electric cooperatives, municipalities, and other customers. This result arises from an admitted purpose of those now responsible for administering the program to, insofar as possible, equalize the wholesale power rates charged by the Federal Government and investor-owned electric utilities so that the competitive influence of Federal power on these utilities will be minimized or eliminated.

Moreover, in my opinion, and I speak from some experience in this matter, the adoption of the separable costs-remaining benefits method of cost allocation is a misconstruction of the intent of Congress. Let me give you a little of the historical background which, I believe, supports my view.

Norfork Dam on the White River was originally authorized by the Flood Control Act of 1938. Power was not included in that authorization. I was elected to Congress in 1938, and pledged to my people that I would work to get power included in the flood control dams of the Southwest.

By resolution adopted June 20, 1940, the House Committee on Flood Control requested the Corps of Engineers to review the original authorization of the Norfork project for the purpose of determining whether provision should be made for the generation of hydroelectric power at Norfork.

And in a letter of May 1, 1941, Maj. Gen. J. L. Schley, the Chief of Engineers, transmitted to Congress the War Department study recommending the installation of power facilities at the Norfork project. Speaking through the report of the Chief of Engineers, Lt. Col. Stanley L. Scott, who was at that time the district engineer at Little Rock, Ark., said in part:

> Since the Norfork Dam has already been authorized as a flood control structure, the economics of generating power should be based on the increased cost of developing the site for the dual purpose of flood control and power generation. The first cost of a flood-control reservoir without any provisions for future power generation has been estimated at $14 million. The estimated first cost of the dual-purpose project is $27,500,000. Therefore, the cost chargeable to power is $13,500,000.

Thus the incremental method of cost allocation was recommended. Several of the multi-purpose flood control projects in the Southwest were authorized in the same manner, first for flood control and later for power.

During subsequent hearings held in 1947 by the House Committee on Public Works on H. R. 3036, a bill which would have transferred jurisdiction of the hydroelectric power features of multiple-purpose projects from the Department of the Interior to War Department and the Federal Power Commission, a representative of the Corps of Engineers again testified to the effect that where navigation or flood control were primary considerations in construction of multiple-purpose projects, the power produced therefrom is of merely incidental benefit or a byproduct. That was as late as 1947.

And as late as 1953, the Southwestern Power Administration itself, in its cost allocation report stated:

> In the opinion of this administration, since the power facilities have been included in this comprehensive flood-control program as an incidental purpose or as a byproduct, it is believed that a byproduct method of accounting should be employed in determining the cost of these power facilities. Therefore, this administration recommends that the investment cost on these other seven projects be determined by use of the incremental-flood-control basic method of allocation * * *.
>
> In view of the foregoing, it is the opinion of this administration that only the incremental cost of including the power facilities in the program is chargeable to power at the Denison, Norfork, Tenkiller Ferry, Bull Shoals, Whitney, Blakely Mountain, and Fort Gibson projects, and that only the identifiable power facilities should be charged to power at the Narrows project.

It is, therefore, my opinion, Mr. Chairman, that there is overwhelming historical precedent in favor of applying the incremental method of cost allocations to these multiple-purpose projects whenever navigation, flood control, or other primary purposes exist for project construction, and where hydroelectric power is an incidental purpose. The administrative agreement of 1954, in announcing general acceptance of the separable costs-remaining benefits method of cost allocation deserts the concept of power as an incidental purpose, refutes established congressional and administrative policy in this matter and results in an artificially inflated estimate of power production cost, and consequently, in an artificially inflated rate structure.

I believe that the change to the separable costs-remaining benefits method, though it may have been accomplished, to some extent, with the acquiescence of Congress, is nonetheless in violation of such law as exists on the question and certainly is in violation of customs and practices previously established.

For those projects where irrigation is a primary purpose section 13 (a) (3) of H. R. 7362 would allocate costs to irrigation and power on an equivalent basis. This provision is designed to protect the irrigators against being damaged by the bill, but our people are willing to accept any reasonable amendment to this part of the bill which would offer further protection.

There may, indeed, be a few projects throughout the country wherein hydroelectric power is a principal purpose. The construction of such projects becomes, under some circumstances, extremely desirable where advantage can be taken of the revenue potential available from them on streams where other flood control and navigation projects achieve substantial reduction of daily and seasonal flow variation. And, as to these projects where power is a principal purpose, there is real justification for applying the separable costs-remaining benefits or the alternative justifiable expenditure method. But the general rule should favor the incremental method, in our opinion; and for this reason, it has been included as one of the statutory standards of H. R. 7362 which we advocate.

TAXES FOREGONE

The Trimble bill would, if enacted, abolish the present administrative practice of charging as an annual cost against Federal multiple-purpose projects the figure representing the tax contribution of a privately financed steam plant that might be expected to develop, were

the Federal plant not constructed. This in my opinion, is simply another attempt to stifle Federal water resource development by applying arbitrary justification standards designed to impair the apparent desirability of these projects.

I have some personal experience in this matter of taxes. One of the big arguments that was raised against our attempt, in Arkansas, to secure reauthorization of the Norfork project for hydroelectric power, was that the valuable bottom lands would be removed from the tax rolls, and that what land was left in the county would not have much value. The county would be wrecked. This was, of course, a somewhat ludicrous argument to an outsider viewing the area, because it was already one of the poorest in the State.

In the county seat of Mountain Home, cattle rambled up and down the main street and hogs ran at large within the city limits. The streets were practically all unpaved and no paving existed at all outside the corporate limits. The people were poor; there were no street lights, the courthouse was a shambles and the town was in really deplorable financial circumstances.

Yet to my certain knowledge, that county has become one of the most prosperous sections of the State since the hydroelectric features were authorized and Norfork Dam was constructed. Tourists from all over the United States pour into the area each year. The recreation facilities that have been built around the edge of the lake are enjoyed by everyone.

Today, in Mountain Home, the streets are paved, there are no cattle or hogs at large in the corporate limits. There is a modern water system. There are street lights and the town has doubled its population many times. There is a beautiful new courthouse and many new residences which were a rarity before Norfork.

It goes without saying that the tax contribution of this area, to both the State and to the Federal Government, has increased many times more than it would have if a privately owned, single purpose hydroelectric or steam plant been built and had Norfork Dam never come into existence.

There is no sound economic argument to favor "taxes foregone."

BENEFITS

H. R. 7362 would broaden the scope of benefits that could be recognized by the Corps of Engineers and the Bureau of Reclamation in calculating the benefit-to-cost ratio of proposed multiple-purpose projects. Recreation is probably one of the most important of the benefits that is not recognized in calculating benefit-to-cost ratios. This is a benefit which is generally recognized by the Corps of Engineers and by the Bureau of Reclamation, but one which, save for a few exceptional cases, has admittedly not been included in benefit-to-cost ratio studies.

The failure of the Bureau of Reclamation and Corps of Engineers to recognize recreation benefits in the benefit-to-cost ratio study unrealistically reduces project justification, and could very well result in the rejection of a particular project where benefit-to-cost ratio exclusive of recreation might fall slightly below unity. Thus, in some cases, our failure to recognize all benefits, denies us the opportunity to

develop projects which, if realistically evaluated, would be fully justified.

And where a project can be favorably reported despite the exclusion of the recreational or other benefit not now recognized, the other purposes of the project must effectively subsidize the recreational benefit. Thus the rural electric cooperatives in Arkansas, Missouri, and Oklahoma which purchase Federal power from the multiple-purpose flood control projects in that area substantially subsidize the millionaire sportsmen who fly in and out of that area several times a year to take advantage of the hunting and fishing opportunities afforded by the reservoirs.

The magnitude of the recreation benefit afforded by the larger Corps of Engineers and Bureau of Reclamation multiple-purpose projects is not insignificant. Measured by the standard of the dollar per man-day contained in S. 1164, a bill now pending before this subcommittee which would authorize the Corps of Engineers and Bureau of Reclamation to include recreational opportunities in their benefit-to-cost ratio study, the recreation benefits attributable to some of these major projects would, indeed, more than offset the entire cost of the project over its useful life span. I do not mean to imply Mr. Chairman, that all or almost all of a project should be charged to recreation, but I do emphasize that such benefits should be included in the justification studies as should all recognizable benefits.

CONCLUSION

We believe, Mr. Chairman, that the best interests of the country will be served by developing all of our water resources to their full potential. We contend that any set of project justification or cost allocation criteria which fails to recognize and take into account substantial benefits accruing from these projects, which inflates the annual costs attributable to such projects by imputing to them nonexistent taxes foregone, and which allocates construction costs to the reimbursable features of such projects in a manner inconsistent with legislative history and inconsistent with the factual situations, should be set aside. There must be no waste of resources.

H. R. 7362 is an attempt to do just that. It is an effort to substitute for the restrictive criteria which is crippling our Federal water resource development program progressive statutory standards for project justification and cost allocation.

In conclusion let me call to your attention resolution E–1 adopted by the 16th annual meeting of the National Rural Electric Cooperative Association in Dallas, Tex. on February 6, 1958. This resolution endorses H. R. 7362, and is attached hereto as exhibit No. 1.

On behalf of the National Rural Electric Cooperative Association, I urge your favorable consideration of this legislation.

EXHIBIT NO. 1

RESOLUTION NO. E–1

From: Power and generation committee
Approved by: Resolutions committee
Subject: Trimble bill

Whereas the new rate schedule for the SPA filed with the Federal Power Commission by the Department of the Interior has been approved; and

Whereas the rate for wholesale power charged by SPA to the rural systems and municipalities in the SPA area has consequently been increased by 27.5 percent; and

Whereas this rate increase is unjustified and based upon an unrealistic cost allocation formula which saddles the power consumers with a disproportionate and inquitable proportion of project costs; and

Whereas H. R. 7362 (better known as the Trimble bill) will reassert the control of the Congress over national water resources and accelerate the conservation and development thereof: Now, therefore, be it

Resolved, That upon recommendation by the Advisory Committee on Power for the Southwest that:

1. The Trimble bill, subject to an amendment requested by the National Reclamation Association to be drawn and offered by Congressman Clair Engle of California, be diligently and forcefully pushed for passage in the next session of Congress; and

2. All Congressmen and Senators interested in the passage of national water resource legislation be requested to support the passage of the Trimble bill as amended in both the House and Senate, and, finally, that copies of the resolution be furnished all Congressmen and Senators, and that each be informed of our purpose and their active support requested.

Adopted February 6, 1958

I think the committee would be interested in this bit of historical background.

The Flood Control Act of 1938 authorized many flood control projects around the country. It did not authorize power in a single one of them. Up until that time I believe power had not been authorized under the general flood control laws in any project. A great howl went up from the areas in which these projects were located and where power was determined to be feasible by the Corps of Engineers, because power had not been included. This was an issue in the race that I made for Congress in 1938. It turned out to be a popular issue—to include power in the project where it has been left out. It was not easy to get power included in the Norfork project. We went to work first on Norfork Dam, and Norfork Dam in my district became the first flood control project, built under the general law, to produce power in the United States. When power was authorized in Norfork it was authorized specifically on an incremental basis because the project was already actually started in construction before the power was authorized.

From that time on down until recently, either the incremental basis, or some combination of formulas have been used to obtain power at a low cost. When this new formula is substituted for the incremental, or the combinations that gave us relatively low-cost power, then the price goes up. That is what we fear, you see, for the whole of the country.

Let me read you a part of a letter dated May 1, 1941. This is a letter from Lt. Col. Stanley L. Scott, who, at that time, was District Engineer at Little Rock, Ark. He said:

"Since the Norfork Dam has already been authorized as a flood control structure, the economics of generating power should be based on the increased cost of developing the site for the dual purpose of flood control and power generation. The first cost of a flood control reservoir without any provisions for future power generation has been estimated at $14 million. The estimated cost of the dual-purpose project is $27,500,000. Therefore, the cost chargeable to power is $13,500,000."

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Now, that is the way that many of the projects in the Southwest were authorized, first for flood control, power added later, and that is the concept we have always had with regard to how power should be charged in determining its cost. Thus the incremental method of cost allocation was recommended and subsequently approved by Congress, and we believe Congress never intended at any time to change that method of cost allocation in the Southwest.

Mr. Chairman, I want to quote one statement which the Assistant Secretary of the Interior made, and which I believe indicates what is behind the plan to change these cost allocations. He made it on September 29, 1953. This is Mr. Fred G. Aandahl, Assistant Secretary of the Interior in charge of power at Fargo, N. Dak., and I quote from page 4 of his statement as it was handed out at that time:

> As a word of warning I would like to forecast that, except in the high fuel cost area, 5 years hence the spread in price between federally produced power and locally produced power either from steam plants or otherwise will be much less than it is at the present time.

That very well prophesied what has been happening, particularly in the Southwest.

There was mention here this morning about the Russian development. I do not think that we ought to try to emulate the Russians on anything, but I do think—although apparently we are with sputniks and otherwise—that with Russia attempting to gain full economic and social development out of her resources, and with Russia attempting apparently to build a military machine second to none in the world, that we cannot, in this country, afford to do less than develop our total resources. And I believe that a policy such as now exists, such as now has been applied in the Southwest, will make further projects unfeasible; will destroy the public support for continuing our resources development.

Mr. Chairman, I would like to yield the rest of my time to Mr. Charles Robinson, our chief engineer for 8 years, who has made a special study of this problem, in order that he may have more time.

Mr. ASPINALL. You may proceed to make your statement, Mr. Robinson.

STATEMENT OF CHARLES A. ROBINSON, JR., STAFF ENGINEER, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. ROBINSON. Mr. Chairman and gentlemen of the committee, my name is Charles A. Robinson, Jr. I am the staff engineer of the National Rural Electric Cooperative Association.

Those persons and organizations which advocate enactment of H. R. 7362 represent rural electric cooperatives, public power districts, and municipal electric utility systems in nearly every State of the Union which, collectively, purchase approximately 25 percent of all hydroelectric energy generated at Federal projects.

THE NEED FOR STATUTORY STANDARDS

H. R. 7362 is an attempt to achieve stability and predicability of Federal water resource policy by establishing progressive statutory standards to govern multipurpose project justification and cost alloca-

tion procedures, and to place Federal water resource planning on a comprehensive basis oriented toward regional development.

The advocates of H. R. 7362 have counseled with several prominent water resource development experts, and have actively solicited the suggestions and advice of other organizations interested in the development of the reimbursable features of multipurpose projects.

Some of these experts indicate approval of the legislation. Others favor it in principle, but contend that project justification and cost allocation procedures are matters for administrative discretion rather than for legislative determination.

It is our contention, however, that an urgent need exists for supervisory legislation to assure control by Congress of Federal water resource policy, and to achieve stability in its administration; for there is already an overabundance of administrative discretion which tends to encourage uneconomic practices and defeat efficiency.

Two basic problems are generally recognized by most parties interested in water resource development. First, national water supply is critical. President Eisenhower's Advisory Committee on Water Resources reported on December 22, 1955, that:

> Shortages of water for domestic and agricultural use are frequent. Industry is finding it increasingly difficult to locate adequate water supplies. Lack of adequate planning threatens to impose a water scarcity which can become a limiting factor on the growth of some of our cities. At the same time, flood damage in many areas continues to be great.

Second, differences between administrative agencies charged with separate phases of Federal water resource administration must be resolved, and the effects of policy differences between successive administrations mitigated. How better can these problems be met than by the establishment of statutory standards to guide all administrative agencies?

Even Assistant Secretary of the Interior, Roger C. Ernst, who under date of June 28, 1957, transmitted to this subcommittee his disapproval of H. R. 7362, concedes the need for such legislation. He stated:

> We are in full agreement with the desirability of having a sound national water resource policy set forth for guiding the work of the various agencies in planning water resources development projects, but in our opinion various of the sections of the proposed act contain provisions that would not contribute to such a sound national policy and omit other provisions that would be desirable.

And, on December 14, 1956, Mr. Joseph Campbell, the Comptroller General, stated in commenting on Senate Resolution 281:

> To resolve the matter of reaching firm cost allocations, we believe Congress should take one of the following alternative courses of action:
>
> 1. Establish policies and criteria for making cost allocations and designating specifically the agency to make the allocation * * *
>
> 2. Establish policies and criteria for making the cost allocations and designating the Federal Power Commission to make the firm cost allocation wherever power is a purpose of the project. * * *
>
> 3. Establish policies and criteria for making the cost allocations and requiring the construction agency, the power marketing agency, and the Federal Power Commission jointly to submit appropriate reports and allocations of the costs to the Congress, or its designated committees to approve an allocation. * * *
>
> Under either alternative, we believe the Congress should require that the cost allocations or the report on cost allocations be made and submitted about the time the project is substantially completed and placed in operation. * * *
>
> Policies and criteria used for cost allocations and related matters have not been uniform between the agencies having water resource development respon-

sibilities. *Notwithstanding the efforts in recent years of the Interagency Committee on Water Resources (and its predecessor, Federal Interagency River Basin Committee), the Presidential Advisory Committee on Water Resources Policy, and the Bureau of the Budget to formulate mutually acceptable principles and procedures, we believe that the Congress should provide the basic framework of policies and criteria.* (Italic supplied.) Among the factors in which the congressional intent may be expressed are:

(1) Benefits and costs to be considered in the benefit-cost analysis for the evaluation of projects and in the allocation formula. Under this factor the Congress may want to consider the degree to which secondary benefits and indirect costs are to be included in determining the total benefits and total costs.

(2) Costs to be included for purposes of allocation and to be repaid by beneficiaries; that is, whether interest in the Federal investment, costs of other Federal agencies applicable to the project, and similar costs not paid directly by the constructing agency are to be classified and recorded as costs of the projects.

(3) Number of years to be used as the basis for realization of project benefits and repayment of reimbursable project costs.

(4) Rate of interest and method of computation.

(5) Costs applicable to other purposes to be repaid by power revenues.

(6) The purposes to which costs are to be allocated and the criteria for allocation * * *

The very purpose of the legislation under consideration, H. R. 7362, is to carry out the above recommendations of the Comptroller General.

COST ALLOCATIONS

Section 13 (a) of H. R. 7362 would apply to multiple-purpose projects, which include hydroelectric features, the incremental method of cost allocation, with the principal purpose of the project considered basic. This provision is grounded on the fact that only in isolated instances does the Federal Government construct hydroelectric plants as such. Projects under the jurisdiction of the Corps of Engineers are usually authorized and constructed to achieve flood control or navigability, or a combination of these purposes. Power features are included as an incidental feature.

The same principle applies to most Bureau of Reclamation projects. And although power features were included in reclamation projects at an earlier date than they were in flood control and navigation projects, power has been considered as a benefit incidental to the principal purpose of providing agricultural, municipal, and industrial water supply for the arid areas. Power generated at reclamation projects is first used as needed for pumping purposes. And, a substantial part of the revenue derived from the sale of the remaining power is used to repay the cost of project irrigation features.

But the very fact that the electric power features are lucrative, tends to induce a false belief that power is a principal project purpose, whereas actually it is not.

The administrative agencies responsible for operation of the Federal water resource development program have themselves misconstructed the intent of Congress. They have, gradually, abandoned the original concept of power as incidental, and now think of it as a principal project purpose. This is part of the change that has created an apparent need for rate increases, and poses to the power user a serious economic dilemma of which this subcommittee is well aware.

The problem arises particularly with respect to the multiple-purpose dams on the main stem of the Missouri River and in the Southwest.

In 1953, the Bureau of Reclamation was allocating 31 percent of the cost of the main stem Missouri River plants to hydroelectric power and 69 percent to flood control and navigation, upon the theory that power was an incidental purpose of these projects which were originally designed to afford a 9-foot free-flowing navigable waterway below Gavins Point, conservation of water for upstream irrigation features and flood protection to the lower Missouri and Mississippi Valleys.

However, since 1953, the Bureau has revised these cost allocations, and now allocates 63 percent to power and 22 percent to flood control and navigation.

The Southwestern Power Administration originally allocated approximately 30 percent of project costs to hydroelectric power. By contrast, the Department of the Interior now allocates approximately 52 percent of project cost to power. The authorization for two of the projects in the Southwest, Norfolk and Denison, was expressly conditioned upon the incremental method of cost allocation. For these 2 projects the present allocation to power is 32 and 47 percent respectively, and it is interesting to note that were the now prevalent separable costs-remaining benefits method applied to these 2 projects, hydroelectric power would bear 43 and 66 percent of construction cost respectively.

At this point, Mr. Chairman, I would like to call the attention of the subcommittee to an administrative agreement between the Departments of the Interior and Army and the Federal Power Commission dated March 12, 1954, entitled "cost allocation" which is attached hereto as exhibit A. This agreement stipulates three methods of cost allocation as acceptable by the signatory agencies. They are (1) separable costs-remaining benefits, (2) alternative justifiable expenditure, and (3) use of facilities.

Bearing in mind the three methods that have been agreed upon as acceptable by the administrative agencies, let me also call your attention to table I, attached hereto as exhibit B. Table I contains a list of 22 various Corps of Engineers and Bureau of Reclamation projects. It also contains for each project a tabulation of the percentage of project construction cost that would be allocacted to hydroelectric power under six separate methods of cost allocation, each of which is being or has been used by one or more agencies of the Government at some time. The last line of table I shows the average allocations calculated by applying the six different methods of cost allocation to all of the projects. Note that the separable costs-remaining benefits method and the alternative justifiable expenditure method each result in an overall figure 61.3 percent of construction cost allocated to power, and that the use of facilities method results in an average allocation to power of 62.8 percent.

Thus, the three methods recommended by the administrative agencies are those which, on the average, result in the allocation to hydroelectric power of high portions of project construction cost. Note also that the priority of use method results in a 53.8 percent allocation, the incremental method in a 50.8 percent allocation, and the specific costs method in 34.7 percent allocations. None of these, which

result in lower allocations of cost to power, are acceptable to the administrative agencies.

We are not contending for general application of the specific cost method which results in the lowest allocation to power. We are contending for general application of the incremental method which, in our opinion, best expresses the intent of Congress, and which for the 22 projects studied, would result in an allocation to power of approximately 50.8 percent of the project costs.

It is our position that the 1954 agreement between the Departments of the Interior and Army and the Federal Power Commission is a departure from congressional intent, because it establishes cost allocation procedures which not only fail to recognize the general proposition that power is usually an incidental purpose, but, in fact, goes far beyond and effectively holds that for practical purposes power is never an incidental purpose.

It is true that there may be some projects in which power is a principal feature. And in such cases, use of the separable costs-remaining benefits method or the alternative justifiable expenditure method would be appropriate. We feel, however, that the general rule should favor the incremental method upon the presumption that power is, in most cases, an incidental purpose.

RECOGNITION OF FUTURE DEVELOPMENT

Section 13 (b) (1) of H. R. 7362 is an attempt to recognize in the calculation of benefits attributable to a given multiple-purpose project or unit, the value of future economic development in the area, and the assumption, in calculating such benefits, that comprehensive basin development will proceed in an orderly manner.

There has been substantial administrative reluctance to accept and utilize initial appropriations for the first units of comprehensive river basin developments on the ground that the benefits attributable to the initial units will not accrue until other projects of the plan are completed. This problem arises especially in the case of developments which include navigation and power facilities. A given navigation channel is, of course, not usable until each of the locks and dams constituting it are complete.

This section of the bill may merely be declaratory of existing practice in some instances, but we feel it should be established as a statutory standard to guide all of the affected construction agencies.

TAXES FORGONE

Section 13 (b) (3) of the bill is an attempt to preclude application of the taxes forgone provision of Budget Bureau Circular A–47. Paragraph 8 (h) of that directive reads as follows:

> Value of electric energy to be produced: This is equal to the lower of two figures: (1) The cost of equivalent energy from the cheapest alternative source of energy—private, Federal, or other—that is available, or could be expected to develop in the absence of the project, to meet the same power need. Taxes and interest charges for this alternative source should be computed on a basis comparable with the project * * *. (2) Value of power to users (considered as the highest price they would pay, and applicable especially where the cost of alternative power would be prohibitive for particular users).

The language makes mandatory upon the power construction agency the calculation of power benefits based upon the cost of securing alternative power from a phantom Federal steam plant which would be the most unlikely of any imaginable alternative to actually develop.

It is a criterion which causes the power facilities of many multiple-purpose projects to appear less desirable and, in some cases, reduces below unity the benefit-to-cost ratio of power features.

Thus on June 10, 1957, the House Committee on Public Works, in considering authorization of power features for the Lone Rock and Gilbert Reservoirs on the White River, was told by the Corps of Engineers that the benefit-to-cost ratio, considering taxes forgone, would be 0.83, whereas, were this test not applicable, the benefit-to-cost ratio would be 1.1 and no question would arise concerning the economic justification of the authorization.

The theory of taxes forgone is economically unsound. For, although a small increment of tax revenue might be created were a private plant constructed in lieu of the Federal project, it does not necessarily follow that because a Federal plant is substituted for the private plant, an equivalent reduction in tax contributions would occur.

Experience is just the converse. It indicates that the constitution of a Federal multipurpose project generally stimulates the local economy to the extent that tax revenue from the geographical area in which the project is located increases substantially.

The taxes forgone provision of Budget Bureau Circular A–47 is not based on statute.

During hearings by the House committee on the 1957 rivers and harbors omnibus bill, the chairman of the Rivers and Harbors and Flood Control Subcommittee of the Senate Committee on Public Works, appearing as a witness, questioned the Chief of Engineers as follows:

Senator KERR. I would like to ask my good friend, the Chief of Engineers, if he knows and if he can tell this committee how many of them (projects) are on the statute books today carrying the burden of the principle of taxes foregone.

General ITSCHNER. I do not know of any hydroelectric projects that are authorized today that have the provisions in it.

PROTECTION OF IRRIGATORS

Section 13 (c) (1) of the bill is intended to be declaratory of existing Federal policy by which that portion of project construction cost allocated to irrigation and beyond the ability of the irrigators to repay may, to the extent necessary, be recovered from the establishment of an appropriate rate for commercial power.

A REASONABLE PAYOUT PERIOD

Section 13 (c) (1) also establishes project payout periods based upon useful project life or 100 years, whichever is the shorter. This is an attempt to conclusively controvert paragraph 14 (a) of Budget Bureau Circular A–47 which limits the repayment period to the lesser of the useful project life or 50 years.

The 50-year limit established in Budget Bureau Circular A–47 is, with respect to Corps of Engineers projects, not required by law.

Section 5 of the Flood Control Act of 1944 specifies:

> Rate schedules shall be drawn having regard to the recovery (upon the basis of the application of such rate schedules to the capacity of the electric facilities of the projects) of the cost of producing and transmitting such electric power, including the amortization of the capital investment allocated to power *over a reasonable period of years.* (Italic supplied.)

We contend that the phraseology "reasonable period," when considered in connection with the durability of earth and concrete structures, should not be arbitrarily limited to 50 years.

During the 1956 hearings held by a subcommittee of the Senate Committee on Public Works to investigate the need for a Federal powe-rate increase in the Southwest, the chairman of the subcommittee asked Mr. Wright, the Administrator of the Southwestern Power Administration:

> Senator KERR. Now, what is your opinion, and I am going to ask the engineers about this also, and if you do not have an opinion you do not need to give it, but I have a lot of respect for your engineering ability as well as the Army engineers, what is your opinion as to the average life of these flood-control projects in this group of seven?
>
> Mr. WRIGHT. I think there are some of them down there that are good for at least a thousand years. I think that we have none in the area that is not good for at least 150 years that are included in this study.
>
> Senator KERR. Would you think the average life of them would reasonably be estimated at 500 years?
>
> Mr. WRIGHT. I do, sir.

It is generally conceded that the revenue from the hydroelectric features will accrue to the Federal Government for a period in excess of 50 years. No reason is, therefore, apparent to us why the payout period cannot be calculated to run coincidentally with the anticipated useful life expectancy of the reimbursable features of the project without regard to arbitrary limitations such as the 50-year period specified in Budget Bureau Circular A–47.

INTEREST RATES

Section 13 (c) (1) of H. R. 7362 seeks also to stabilize the rate of interest applicable to funds invested in multipurpose projects by providing that the interest rate shall be equivalent to the average rate of interest borne by all marketable, interest-bearing obligations of the United States during the 15 years preceding the appropriation of initial construction funds.

In our opinion, this provision will minimize fluctuations in the interest rates applicable to successively authorized projects resulting from short-range variations in the cost of money.

RETROACTIVE APPLICATIONS

Section 14 (a) of the bill would apply its substantive provisions to multiple-purpose projects completed.

The comment of the Assistant Secretary of the Interior on this portion of the bill states that:

> As a general rule, such retroactive provisions are not desirable; however, the merits of including a retroactive provision in this bill could be judged only after it is modified with respect to project formulation, cost allocations, and charges for project services.

On the presumption that the Assistant Secretary approves what his Department has already done, he states in effect that although his

Department has virtually completed the retroactive application to previously constructed projects of justification and cost allocation criteria which it deems desirable, the retroactive application of criteria with which it is in disagreement is undesirable. It could be alternatively implied, from the Department's comment, that were the bill modified to conform with existing administrative policy, there would be no objection to retroactive study already accomplished with respect to projects previously completed. This is, in our opinion, an anomalous comment indeed.

RECOGNITION OF ALL BENEFITS IN DOLLAR TERMS

Section 16 (a) would implement the language of section 15 by requiring that in submitting reports and recommendations to Congress for project authorization and appropriations, such reports would be based upon the study of an entire basin. This section also would be, to some extent, declaratory of existing policy but would assure administrative adherence and preserve uniformity of future studies.

Section 16 (b) is an attempt to assure that all recognizable benefits will be included in benefit-to-cost ratios, and that all benefits, to the extent possible, will be expressed in dollar values.

Paragraph 14 (j) of Budget Bureau Circular A–47 Revised provides:

> Until standards and procedures for measuring secondary benefits are established by amendment of this circular, the benefit-cost analysis of any program or project shall be based upon primary benefits * * * despite the importance of effects which are local or regional rather than national in character, such effects shall not be considered as part of the benefit-cost analysis; rather these effects shall be fully evaluated as part of the analysis of the relation of the project to sound local and regional economic development * * *

and paragraph 15 of Budget Circular A–47 Revised provides that:

> The associated costs to be incurred and induced costs which will result from a proposed program or project shall be subtracted from benefit estimates before a comparison of benefits and costs is made. Induced costs shall be evaluated as extensively and fully as benefits * * *

In effect, Budget Bureau Circular A–47 precludes the use of secondary benefits in the benefit-cost analysis, but requires the inclusion of so-called induced or indirect costs in such calculations, thereby seriously imparing the validity of apparent project evaluation studies.

An excellent example of the problem of evaluating intangible benefits was presented during Senate hearings on S. 1164 before a subcommittee of the Senate Committee on Public Works. S. 1164, now pending before this subcommittee, would authorize the Corps of Engineers and Bureau of Reclamation to include in benefit-cost ratio calculations a dollar evaluation of recreational benefits.

During those hearings the Assistant Chief of Engineers for Civil Works testified that although the corps does evaluate recreational benefits generally, such evaluations are not submitted to Congress and are not included in computation of benefit-cost ratios.

Senate bill 1164 provides that where reservoir areas are developed by the Secretary of the Army or the Secretary of the Interior, the annual recreational benefit shall be calculated as equivalent, in dollars, to the number of persons which might reasonably be expected to utilize the recreational facilities during a year, but not to exceed 15 percent of annual project costs.

During the Senate hearings on S. 1164, the Corps of Engineers testified that during 1955, some 62,522,000 persons utilized the recreational facilities at reservoirs under its jurisdiction. The Bureau of Reclamation testified that 8,703,000 persons used the recreational facilities at reservoirs under its jurisdiction during the same year. Yet no recreation benefits are generally calculated in the benefit-cost ratios.

It appears to us that, with respect to recreation benefits alone, a major factor favoring multiple-purpose project construction is substantially ignored. And to the extent that because of this fact the benefit-cost ratios of some projects are less than 1, then to that extent we are deprived of the opportunity to develop a sound water-resource project.

UNECONOMIC INCREMENTS

Section 16 (c) of H. R. 7362 provides for the permissive inclusion in multiple-purpose projects of units or features which, although themselves exhibiting a benefit-to-cost ratio of less than unity, would not reduce the total unit or project benefits below costs. In brief, it is a provision to allow the inclusion of uneconomic increments of benefit in a project that would not thereby be made uneconomic as a whole.

Under present administrative policies, the entire plan for a particular comprehensive river basin development plan must show an overall benefit-cost ratio in excess of unity as must each unit of such plan and each facility of each unit. This necessarily means that, in some cases, desirable features, such as municipal water supply or hydroelectric power, may be excluded from a particular unit or project because, as measured by the particular criteria in vogue at that time, they may not show a benefit-to-cost ratio above unity.

Let me emphasize that this part of the bill is not mandatory. It is permissive only and expresses the sense of the Congress that uneconomic increments may be included in multipurpose projects, at the discretion of the agencies responsible for administering the law, provided that the overall economic justification of the project is not destroyed.

CONCLUSIONS

It is anticipated by those who have developed and advocate H. R. 7362 that considerable objection to it will be raised. We welcome constructive criticism and will accept such amendments as may be necessary to prevent damage to other interested parties, provided, of course, that such amendments do not destroy the major provisions. We suggest, however, that in view of the widespread acknowledgment of a need for this type of legislation, there rests upon the critics of H. R. 7362 a burden to accompany their criticism with affirmative suggestions for an alternative approach.

Those who support H. R. 7362 believe that the Nation can no longer afford to tolerate project justification and cost allocation procedures so restrictive that water resource development is brought to a standstill. For to adopt a program based upon criteria of this nature is to make that criteria the master of the people rather than their tool.

In conclusion, Mr. Chairman, let me again call to your attention the testimony of the Commissioner of Reclamation, the Honorable Wilbur A. Dexheimer, offered before the House Committee on Interior and Insular Affairs on Wednesday, March 30, 1955, during a dis-

cussion by the Committee of Budget Bureau Circular A–47. The following exchange took place:

The CHAIRMAN. Without going into detail, Mr. Dexheimer, can you state whether or not any project now under study, and contemplated for authorization, could comply with the standards set up in A–47?

Mr. DEXHEIMER. With the liberal interpretation of secondary benefits as a part of it, and utilizing the 50 years, plus the 10-year development period, we have some that could come within that circular.

The CHAIRMAN. What are they?

Mr. DEXHEIMER. The Ventura project would be one, in California, I believe. * * * But if you strictly construe the budget circular to the 50-year limitation, there are very few, if any, of our projects that would qualify.

The CHAIRMAN. In other words, it is fair to say that, except perhaps for the Ventura project in California, we would be at the end of the rope if we strictly applied the provision of this circular?

EXHIBIT A

COST ALLOCATION

Agreement among Department of the Interior, Department of the Army and Federal Power Commission.

Costs of a multiple-purpose project shall be allocated among the purposes served in such a manner that each purpose will share equitably in the savings resulting from combining the purposes in a multiple-purpose development.

Acceptable methods (see attachment for brief description):

(1) *Separable costs-remaining benefits method.*—This method is considered preferable for general application.

(2) *Alternative justifiable expenditure method.*—This method differs from (1) only in employing specific costs of the various functions rather than their separable costs. It is acceptable where the necessary basic data to determine separable costs are not available and the time and expense required to obtain the data are not warranted.

(3) *Use of facilities method.*—This method is acceptable where the use of facilities is clearly determinable on a comparable basis and where use of this method would be consistent with the basis of project formulation and authorization.

Minimum allocation

Each purpose shall be allocated, in every case, at least its separable cost (the cost traceable to its inclusion in a multiple-purpose project). Limitations of basic data may occasionally require the use of specific cost (the cost of features identified solely with a single purpose) and other available data as constituting the best available basis for approximating separable costs.

Legislative history

The legislative history of authorized projects shall be considered in the allocation of cost. The authorizing act, committee reports, project justification documents, and similar sources disclose the nature of the proposal submitted to the Congress and of congressional action thereupon.

Consideration of economic costs

In applying any one of the above allocation methods, taxes in an amount equal to those which would be foregone as a result of Federal development of the power rather than the most likely alternative development shall be included as an economic cost when distributing costs among the project purposes for analysis of economic justification, but shall be subtracted from the costs thus distributed to power in order to obtain the allocation of project costs to power.

Value of power

The value of power produced means the estimated market value which would be obtainable if it were to be sold on an open competitive basis, without restriction as to use or resale. The value of power shall be determined as the lower of two figures:

(1) The estimated actual cost of equivalent power from the most likely alternative source that would be expected to develop in the absence of the project, to meet the same power needs, with appropriate adjustment for transmission costs and losses and other technical factors.

(2) Estimated value of power to users. (Applicable where costs of alternative power would be prohibitive either for part or all of the power produced.)

The value of power, determined as indicated above, shall be used for computations of economic benefits in project justification and for the allocation of project costs. It will not be used to establish the level of power revenues, which are based on the amortization of project costs (Federal power investment) over a reasonable period of years.

Project feasibility

Criteria of project feasibility shall be such that, insofar as can be determined in advance:

(1) Projects will be considered economically feasible when the value of power (as defined above) will at least equal the project costs allocated to power, plus the amount of taxes which would be foregone as a result of Federal development of the power rather than the most likely alternative development.

(2) Projects will be financially feasible, i. e., they will have potential net revenues from power sales sufficient to reimburse the Federal Government for the Federal investment in power.

BRIEF DESCRIPTION OF METHODS OF COST ALLOCATION

The separable costs-remaining benefits method has the following steps:

(1) The benefits of each purpose are estimated.

(2) The alternate costs of single-purpose projects to obtain the same benefits are estimated.

(3) The separable cost of each purpose is estimated.

(4) The separable cost of each purpose in the multiple-purpose project is deducted from the lesser of each purpose's benefits or alternate cost. The lesser figure is used since alternate cost is used in this method only if it represents a justifiable expenditure, that is, if it does not exceed the benefits.

(5) From total cost of project deduct all separable costs to determine residual costs.

(6) Residual costs, designated as joint costs in this method, are distributed in direct proportion to the remainders found in step 4.

(7) To determine the cost allocated to each purpose, add the separable and distributed costs for each purpose and, in the case of power, subtract from that sum the amount of taxes forgone which was used in computing power costs under steps 2 and 3 above.

The alternative justifiable expenditure method has the following steps:

(1) The benefits of each purpose are estimated.

(2) The alternate costs of single-purpose projects to obtain the same benefits are estimated.

(3) The specific cost of each purpose is determined.

(4) The specific cost of each purpose in the multiple-purpose project is deducted from the lesser of that purpose's benefits or alternate cost. The lesser figure is used since alternate cost is used in this method only if it represents a justifiable expenditure, that is, if it does not exceed the benefits.

(5) From total cost of project deduct all specific costs to determine joint costs.

(6) Joint costs of the multiple-purpose project are distributed among purposes in direct proportion to the remainders found in step 4.

(7) Allocation of project cost is determined in the same manner as under the separable costs-remaining benefits method.

The use of facilities method has the following steps:

(1) The use which is made by each purpose of joint project facilities is estimated on some basis which is comparable for the purposes concerned, using such measures of use as those of flow, reservoir capacity, energy consumption, and others as may be applicable.

(2) The separable cost of each purpose is estimated. (In cases of minor importance specific rather than separable costs may be used.)

(3) From total cost of project deduct all separable costs to determine joint (residual) costs.

(4) Joint costs of the multiple-purpose project are distributed among purposes in proportion to the comparable measures of use of the joint facilities estimated in (1).

(5) To determine the cost allocated to each purpose, add the separable and distributed costs for each purpose and, in the case of power, subtract from that sum the amount of taxes forgone which was used in computing power cost under (2) above.

EXHIBIT B

TABLE I.—*Comparison of project cost allocated to hydroelectric power according to the allocation method used* [1]

Project	Total cost	Separable costs—remaining benefits	Alternative justifiable expenditure	Priority of use	Use of facilities	Incremental	Specific costs
		Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
1. Fort Peck, Mont.	$158,300,000	53.1	55.3	40.0	49.7		25.1
2. Garrison, N. Dak.	295,000,000	55.0	56.9	43.0	52.0		35.2
3. Oahe, S. Dak.	356,800,000	57.9	59.5	46.2	54.8	[2] 51.2	33.1
4. Fort Randall, S. Dak.	195,000,000	71.4	71.6	58.8	69.2		39.6
5. Gavins Point, S. Dak.	53,000,000	82.1	81.9	66.8	82.8		47.7
6. Norfork, Ark.	28,700,000	65.5	63.5	46.6	72.8	49.0	26.6
7. Table Rock, Ark.-Mo.	68,700,000	76.7	74.6	69.3	81.2	68.8	23.2
8. Bull Shoals, Mo.	76,329,000	56.6	55.8	47.0	65.5	56.2	25.4
9. Denison, Tex.-Okla.	62,208,000	42.8	44.8	31.8	60.8	31.8	21.4
10. Whitney, Tex.	43,988,300	18.2	17.3	18.2	23.6	18.2	14.6
11. Fort Gibson, Okla.	44,857,000	37.3	39.7	36.3	43.6	36.2	24.6
12. Tenkiller Ferry, Okla.	23,772,000	51.8	47.4	51.7	64.2	51.8	35.3
13. Narrows, Ark.	13,239,000	40.4	36.6	40.4	66.3	40.4	21.6
14. Blakely Mountain, Ark.	30,800,000	75.2	73.1	65.0	76.3	66.3	49.7
15. McNary, Oreg.-Wash.	284,823,800	91.6	91.6	91.6	62.7	52.3	44.7
16. The Dalles, Oreg.-Wash.	270,000,000	91.6	91.6	91.5	73.8	61.1	53.0
17. Bonneville, Oreg.-Wash.	82,055,000	69.3	69.6	49.4	68.7	47.4	43.9
18. Colorado-Big Thompson	158,999,000	41.9	38.9	35.8	[3]	35.8	26.8
19. Colorado River storage	[4] 609,419,000	91.0	90.9	85.8	[3]	64.7	56.0
20. Fryingpan-Arkansas	156,541,000	28.5	28.4	24.6	[3]	24.6	23.5
21. Boulder Canyon	163,370,413	72.1	76.4	48.3	[3]	48.3	48.3
22. Columbia Basin	271,477,000	80.6	83.8	73.1	[3]	57.2	40.9
Total cost	3,447,378,513						
Average percentages		61.3	61.3	53.8	62.8	50.8	34.7

[1] Source: Supplemental memorandum of chairmen to members of Senate Committee on Interior and Insular Affairs, and Public Works, Jan. 24, 1957; based on data supplied by the Corps of Engineers and Bureau of Reclamation.

[2] Average for system composed of Fort Peck, Garrison, Oahe, Fort Randall, and Gavins Point. No data on individual projects given.

[3] Not given.

[4] Includes Glen Canyon, Flaming Gorge, Curecanti, and Navajo.

I think it is clear by this time that the purpose of this bill is to establish statutory standards to guide the administrative agencies in project justifications and cost allocation studies. Those of us who have worked on this bill and advocate its passage feel we are not only serving a self-interest in advocating the bill, but that we are also serving an interest that has been recognized by the administrative agencies of the Government because even the Assistant Secretary of the Interior in adversely commenting on the bill said he was in full agreement with the desirability of having a sound national water resource policy set forth for guiding the work of the various agencies in planning water resource development projects.

That quotation appears on page 2 of my statement. The Comptroller General has repeatedly said it, or almost the same thing, and on December 14, 1956, in commenting on Senate Resolution 281, he said:

> Notwithstanding the efforts in recent years of the Interagency Committee on Water Resources (and its predecessor, Federal Interagency River Basin Committee), the Presidential Advisory Committee on Water Resources Policy, and the Bureau of the Budget to formulate mutually acceptable principles and procedures, we believe that the Congress should provide the basic framework of policies and criteria.

And he sets forth in detail, as appears at the top of page 3 of my statement, what the Congress should set forth—benefits and costs to be considered, costs to be included for purposes of allocation, number of years to be used as a basis for realization of project benefits, and so forth.

Mr. Chairman, one of the most controversial portions of this bill deals with the cost allocation procedures. It is our basic contention that power is never included in a Federal purpose, except in very few cases, as a principal purpose, and that the entire background for the inclusion of power development has been one incidental to flood control and navigation with respect to the Corps of Engineer projects, and incidental to irrigation with respect to the Bureau of Reclamation projects.

There have been slightly different payout policies observed with respect to the Corps of Engineers and the Bureau of Reclamation, but the principle exists.

I would like to call the attention of the subcommittee at this point to exhibit A, which is an agreement that was entered into on March 12, 1954, between the Department of the Interior, the Department of the Army, and the Federal Power Commission which sets forth several ways of cost allocation: First, is the separable costs remaining benefits method; second, is the alternative justifiable expenditude method; third, is the use of facilities method.

In connection with that, I would also like to call to your attention exhibit B attached to my statement in which we have listed 22 separate projects throughout the country, and using information furnished to a subcommittee of the Senate Committee on Public Works, have applied six different cost allocations methods to each of these projects and have tried to strike an average to indicate what the result would be of applying various cost allocation methods to all of these projects. You will note that the separable costs remaining benefits method would allocate 61.3 percent of the project cost to power. The alternative justifiable expenditure method would also

allocate 61.3 percent of project cost to power. These are very similar methods and the result is not unusual.

The priority of use method would allocate 63.8 percent to power.

The use of facilities method would allocate 62.8 percent.

The incremental method, 50.8 percent.

And if you allocate to power only the specific costs, you would arrive at a figure of 34.7 percent.

So you can see that the methods adopted by the three administrative agencies—all three acceptable methods—result in each case of the allocation to power of higher portions of project costs than would be the result if you applied any of the other methods we studied here. Each of these methods has been used at one time or another by one agency of the Government. So, by adopting as acceptable these three methods, the administrative agencies have created a presumption in favor of the proposition that power is never an incidental purpose. We believe that the presumption should be just the opposite, that power is, as a general rule, an incidental purpose.

There are, of course, occasions where power is a principal feature. There are a few of them. One project on the Missouri, Big Bend, would be principally power, and in that case the application of the separable costs remaining benefits method would be appropriate. But the general presumption should favor the proposition that power is an incidental purpose and there should be used a cost allocation formula based on that presumption.

Now, Mr. Chairman, on page 6 of the statement we have gone into some detail on the result of applying paragraph 8 (h) of Budget Bureau Circular A–47, which concerns the subject of taxes forgone. In applying this feature of the circular to a project, the Corps of Engineers will calculate as a project benefit the taxes paid by private utility companies were they to build a steam plant in lieu of the Federal project.

However, when it gets to allocating the cost—when the costs are allocated—the corps will charge against a project the same amount of taxes that would be paid by the private utility company.

Now, the contention of the corps on this point is that it is simply an addition to one side of the ledger and a subtraction from the other, but that is not a sound policy because although a small increment of tax revenue might be created, were a private plant constructed in lieu of the Federal project, it does not necessarily follow that because a Federal plant is substituted for a private plant an equivalent reduction in tax contributions would occur. Exactly the opposite would be the case, and it has been the experience of the Corps of Engineers that where a multiple-purpose project is built, it so stimulates the local economy that the accrual of taxes to both the Federal and State Governments is far superior to what it was prior to the time the Federal project was built.

We think that the taxes forgone portion of Budget Bureau Circular A–47 is not sound and section 13 (b) (3) of the Trimble bill we hope will conclusively controvert its provisions.

Section 13 (c) is intended to be declaratory of existing policy and provides with respect to a reclamation project, that whatever portion of the project costs is allocated to irrigation and is beyond the ability of the irrigators to repay will be picked up by an establishment of

appropriate power rates so that the power users will continue as they do now to pick up a portion of the irrigation costs.

I might point out that there is an additional built-in safeguard for the irrigators in the bill as far as cost allocation goes.

Section 13 (a) (3) on page 2 of the bill provides:

> In the case of projects having irrigation as one of their primary purposes, the cost of features and facilities of the project which relate to electric power shall be determined and allocated to electric power on a basis as near as may be to the basis on which costs relating to irrigation are determined and allocated.

I believe the representative of the Department of the Interior testified yesterday that his initial study of the bill indicated that this would not result in a higher allocation to irrigation of project costs than is now the case.

With respect to the 100-year pay-out period included in the bill, I would like to say that the 100 years is not a mandatory figure; it is a top limitation. The bill provides alternatively that a 100-year pay-out period, or the reasonable life of the project, whatever is the lesser, shall be used. The only thing we are tryingto do in putting that 100-year period is there is to again controvert the provisions of paragraph 4 (a) of Budget Bureau Circular A (47) which limits the repayment period to 50 years, or to the useful life, whichever is the less.

As regards the Corps of Engineers projects, section 5 of the Flood Control Act of 1944 reads that the reimbursable features of the project must be paid out over a reasonable period of years. We see no reason why 50 years is any more reasonable than 100. Actually, it should be based on the project life.

With respect to the usable life of the project, in the 1956 hearings held by a subcommittee of the Senate Committee on Public Works, Mr. Wright, the Administrator for the Southwest Power Administration, stated in reply to a question of the chairman:

> I think there are some of them—

that is, projects—

> down there that are good for at least a thousand years. I think that we have none in the area that are not good for at least 150 years that are included in this study.

The chairman asked him:

> Would you think the average life of them could reasonably be estimated at 500 years?

He said:

> I do, sir.

That is the reason for our including that feature in the bill.

With respect to the interest rate provisions of the bill, we have set those so the project interest rate, the interest applicable to Federal funds invested in the project, would be the average rate of interest borne by all marketable interest-bearing obligations of the United States during the 15 years preceding the appropriations of initial construction funds. It is our hope that this will minimize the fluctuation in the interest rate applicable to successively authorized projects resulting from short-range variations in the cost of money. We think that would protect the Federal Government against short-range decreases in interest rates and would protect the users of the reimburs-

able features against short-range increases. We think that it would work equitably both ways.

Mr. Chairman, section 14 (a) of the bill has been criticized by the Department of the Interior. That is the section which would make its substantive provisions retroactive to projects already constructed.

The Department of the Interior has said that "as a general rule such retroactive provisions are not desirable; however, the methods of including a retroactive provision in this bill could be judged only after it is modified with respect to project formulation, cost allocations, and charges for project services." But what the Secretary did not say is that the Department has already gone back and restudied existing projects once and applied its own criteria, its own justifications, and cost allocation procedures to them, and now it claims that to go back and restudy the projects in conformity with the standards set forth in this bill would work a hardship.

Mr. ASPINALL. The House is now in session. We will adjourn and come back at 2 o'clock.

AFTER RECESS

Mr. EDMONDSON. The subcommittee will come to order.

Mr. Ellis and Mr. Robinson, will you resume your places?

(Discussion held off the record.)

Mr. EDMONDSON. Thank you for your very fine statements, gentlemen. We appreciate the manner in which you helped us in your presentation of your statements.

Any questions?

Dr. MILLER. There is a quorum call on and I assume we will have to go back to answer it. Perhaps inasmuch as these gentlemen are still in town they can appear at another time to answer questions.

The thing that disturbs me somewhat is the incremental method included in Mr. Ellis' statement on page 6.

If we use that same method for flood control and irrigation, and also use it for power, it seems to me we would be in trouble when it comes to paying for the project.

You might think that over and give me an answer to it later on.

The other point is this: Neither of you spoke about bringing in items to justify recreational features of various projects. It seems to me that that is a new facet we are considering. I am not sure but what we should consider it. I am not sure how far we should go in including recreational features which have not heretofore been included as one of the nonreimbursable items in prior projects.

The next question is this: Does not the bill, instead of going just to water resources, generally have for its purpose, at least in effect, making projects feasible now which would not otherwise be feasible unless we adopt certain provisions of this bill?

I am not sure but what we should perhaps adopt some of them. I am not sure but what some of the methods are too rigid in determining feasibility. Provisions of the bill will make feasible some of the standards.

There are a few other things I would like to have answered. Perhaps you can supply a written answer to the questions later if you wish.

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I have 1 or 2 other questions relative to ratio phases of this having to do with recreational benefits. I think I brought that out in relation to the bill.

There are still 1 or 2 other points we will have to consider.

Mr. EDMONDSON. Any comments you might have, Mr. Thomson?

Mr. THOMSON. I go along with the suggestion of Dr. Miller that these witnesses should come back, Mr. Chairman.

I think the witnesses were in the room this morning and heard some of my questions of Mr. McDonald.

The statement of Mr. Robinson on page 7 concerns me most. He refers here to reclamation.

It seems to me if we follow that suggestion the people in these 17 States will be paying taxes and higher rates to take care of flood control and ending up with higher costs than other areas thereby making it disadvantageous and noncompetitive.

When you come back I would like to have you comment on that.

Mr. ROBINSON. There is an answer to that and we would be happy to supply it at any time you wish.

Mr. EDMONDSON. Off the record.

(Discussion held off the record.)

Mr. EDMONDSON. There are a number of statements which have been presented here for filing. I would like to get unanimous consent to have those statements filed and made part of the record at this point.

Mr. THOMSON. I have no objection personally. In view of the general situation here I would make reservation as made in the usual manner.

Dr. MILLER. I might have some reservation, also. There were some questions on 1 or 2 of the statements.

Mr. EDMONDSON. Subject to the reservations which you gentlemen have to examining these statements individually they may be admitted at this time.

If you have objections to them individually you might cover those questions in hearing.

These statements may be admitted subject to that reservation.

We will now take a brief recess.

(Recess taken.)

Mr. ASPINALL. The Subcommittee on Irrigation and Reclamation will resume its hearings.

As I understand it, when the quorum bell rang permission had been granted to have Messrs. Ellis and Robinson bring additional information before the committee at a later time, and they will not only bring the answers to the questions which Congressman Miller and Congressman Thomson asked, but they will also be here for detailed questioning later on.

Is that the understanding of the committee?

(No response.)

Mr. ASPINALL. With that understand we will excuse Mr. Ellis and Mr. Robinson at this time.

Thank you very much, gentlemen.

The next witness will be Dr. Henry Blalock, Sr., consultant.

STATEMENT OF HENRY W. BLALOCK, SR., CONSULTANT

Mr. BLALOCK. My name is Henry W. Blalock, Sr. I live in Silver Spring, Md., and I am in the private consulting business in the utility field.

I am here representing the Central Electric Power Cooperative at Jefferson City, Mo. That is a large generation and transmission system with a steam generating plant and a system of transmission lines, the NW Electric Power Cooperative at Cameron, Mo., and the Western Farmers Electric Cooperative at Anadarko, Okla.

All three of these are transmission and generating cooperatives with generating facilities serving a large number of member cooperatives.

It might be helpful, Mr. Chairman, to relate a little of my background. I was a member of he Arkansas Public Service Commission at one time, from 1937 to 1941. I was a member of the staff of the Federal Power Commission for a period of about 6 years. I was assistant to the Administrator of Southwestern Power Administration for a number of years before I assumed my private consulting work.

I might also state that I have been representing these three power generation and transmission cooperatives now for a number of years.

I appear in support of H. R. 7362, better known as the Trimble bill.

The Bureau of the Budget has become the gateway through which any and all water resources legislation must squeeze before even the Congress can consider it. This Bureau has gotten such a stranglehold over water resources legislation and has so completely dammed up the flow of this legislation to Congress that Hon. Clarence Cannon, chairman, Committee on Appropriations of this House, on February 27, 1958, wrote Mr. Brucker, Secretary of the Army, directing him to send a more realistic program and revised estimates of public works directly to the committee, thereby bypassing the Bureau of the Budget.

Mr. Chairman, the Trimble bill which I am supporting is an effort to break the shackles of the Bureau of the Budget, stifling and destroying our water resources development, and restore to the Congress its rightful responsibilities to determine the water resources policies of this Nation.

The Bureau of the Budget, through its control of the various agency budgets and reports to Congress, has over the years substituted its judgment both in the fields of management and policy for that of the Corps of Engineers, the Bureau of Reclamation, TVA, Bonneville, and Southwestern and Southeastern Power Administrations of the Interior Department. Now everything from these agencies going to the Congress has to be funneled through this autocratic Bureau. So long as the Bureau limited its review to its legitimate scope of determining whether the requests of these agencies were consistent with the President's budgetary policies, little trouble was encountered and the problem of determining water-resource policies and which projects should go forward was left to the Congress after hearing the justification of the agencies. Trouble started when the Bureau of the Budget began to superimpose its judgment on that of the agencies through budget review officers who, from an office in Washington with an occasional superficial visit to the field, soon became experts whose judgment took precedence over the judgment of those who live with the agency from day to day. These men, however well trained they

may be, cannot be as well qualified to determine the merit of project studies, management of agencies, and overall water-resource policies, as those who devote their entire time to the problem. As a matter of fact, it is not the job of the Bureau of the Budget to substitute its judgment for that of the agencies in the management and technical know-how fields.

The vehicle the Bureau has used to stifle the water-resources program is its bulletin A–47 and its bulletin A–47, revised; the latter still, I believe, is unofficial but nevertheless available to those who work behind the budget curtain. Now, what is wrong with Budget Circular A–47 and how will the Trimble bill correct the situation?

1. Budget Circular A–47 has greatly reduced the benefits to be derived from electric power by valuing it on the basis of federally constructed steam plants as alternative sources of power.

Before memorandum A–47, the test of value was the cost of privately developed and privately financed steam electric power in the area. If Federal hydropower could be produced at costs less than private steam electric power, it was economically feasible. Now A–47 requires (sec. 8 (L) (1) (2)) that Federal hydropower must be compared with steam electric power produced and financed by the Federal Government or any other source if the cost of production is lower than to the Federal Government. In other words, before Federal hydropower can be justified, it must be the cheapest power that could be produced by any method of generation and by any producer, even the Federal Government itself.

The requirement of this Federal test is very severe and will be drastic enough to make infeasible many projects which heretofore were feasible. For example, a memorandum of the Federal Power Commission, prepared in February 1953 for its staff use, shows that the annual fixed charges of interest, depreciation, replacements, insurance, and taxes of privately financed steam electric plants would amount to 11.7 percent of the investment, whereas the same costs in federally financed steam electric plants would be 5.7 percent of the investment. Assuming an investment of $125 per kilowatt of installed capacity, the following comparison of the annual fixed cost per kilowatt of steam generation is obtained:

Privately financed	$14.63
Federally financed	7.13
Difference	7.50

The application of this new test of A–47 to the projects listed below would reduce the value of power or benefits of power by the amounts shown:

Project	Minimum peaking capability, kilowatts	Loss in value of power or economic benefit due to Federal test of memorandum A–47
Greers Ferry	64,000	$470,000
Water Valley	34,000	255,000
Beaver	86,000	645,000
Gilbert and Lone Rock	115,000	862,500
Total	299,000	2,242,500

It is evident that such great losses of value or benefits of power due to this test would make infeasible nearly all, if not all, of the projects in the Southwest.

The Federal Government is not now engaged in building steam plants in the Southwest, and there is no indication that it is now about to launch a program of Federally owned and financed steam plants; therefore, it appears the Bureau of the Budget is resorting to a nonexistent fictitious test.

Gen. S. D. Sturgis, Chief of Engineers, in a letter dated February 19, 1954, to the Secretary of the Army, makes the following statement which bears on this problem:

> The Greers Ferry and Beaver projects are economically feasible in accordance with criteria normally used until recently, their overall benefit-cost ratios being respectively 1:2 and 1:1. Since the completion of the report, however, new criteria of the Bureau of the Budget require such projects to be compared with steam plants of comparable financing, i. e., Federal steam plants. The comparison indicates that the power to be produced by these multiple-purpose projects, although cheaper than the private steam alternatives currently developing to serve the region would cost somewhat more than a Federal steam plant.
>
> If these projects are not to be built, there is no indication that Federal steam plants will actually be utilized to serve the market; in fact, it is almost certain that privately owned generation will be built instead. The flood control and incidental benefits cannot be as economically provided by any other source.

Furthermore, the market value of the power in the area where the Federal hydroproject is to be constructed is determined by the cost of producing power by existing suppliers in the area and not by a nonexistent and unlikely potential supplier. After the project is completed, any power sold to the private companies should be sold to them on the basis of costs and not at costs of a theoretical nonexistent Federally constructed steam plant.

The Trimble bill provides that—

> In no event shall an alternative source of electric power be considered as available, or as expected to develop, unless there is a reasonable likelihood that such alternative source of power will actually be available or develop; nor shall a Federal source of electric power be considered as available or expected to develop unless such Federal source of electric power is authorized by law. (Sec. 13 (b) (3), p. 4, lines 19–24, p. 5, lines 1 and 2.)

If this language is adopted, realism will be restored to evaluating power in multipurpose projects.

2. The Trimble bill would also correct the erroneous approach of the Bureau of the Budget with respect to primary, secondary, and intangible benefits. Budget Circular A–47 states that main reliance will be placed on primary benefits unless the report sets forth clear justification for considering other factors (sec. 8). It states further that "until standards and procedures for measuring secondary benefits are approved by the Bureau of the Budget, the evaluation shall be based mainly upon primary benefits." The Trimble bill provides for proper consideration of primary, secondary, and intangible benefits.

Primary benefits are the value of the immediate product or services resulting from the project. Value of power from a project would be an example of a primary benefit.

Secondary benefits are values added over and above the primary benefits or value of the immediate products or services of the project. Examples of secondary benefits are: (1) added values resulting from transporting, processing and distributing added farm products from

the project; (2) added economic activity due to increase in availability of electric power; (3) increased incomes due to business of supply goods and services to the project area. These benefits are measurable in monetary terms.

Intangible benefits are not measurable in terms of money. They are important and should not be overlooked as is done by the Bureau of the Budget. They include such benefits as strengthening the national security and the national economy, increasing the wealth of the area; broadening the tax base; encouraging the establishment of new industry; providing opportunities for new homes; saving of human life through flood control; and many more.

The Trimble bill provides that all primary and secondary benefits shall be expressed in dollar values and that all other (intangible) benefits shall be described. This does not mean that any attempt will be made to include in tangible benefits in the benefits-costs ratio. However, where the benefits-costs ratio is slightly less than favorable and the intangible benefits are large it might be advisable to find the project feasible. This is the extent to which intangible values can be used.

3. The Trimble bill would provide a more realistic approach to the service-life or payout period for these multipurpose projects. It provides that the Government's investment in the project shall be amortized "over the useful life of the project or a period of 100 years, whichever is the shorter." This is, of course, in addition to the other annual operating costs. Budget Circular A–47 provides for amortization over the useful life of the project but not to exceed 50 years except under certain conditions where irrigation is involved. Budget Circular A–47, revised, in addition to the 50-year limit on payout with a 10-year development period on irrigation projects when necessary, requires more local contributions to the project.

All of us know that these large engineering projects will last for hundreds of years barring earthquakes and bombing. Of course some of the machinery and equipment will have a relatively shorter useful life. All of these great massive structures will be rendering service long after every person in this room today is counted among the dead.

Maj. Gen. E. C. Itschner, Assistant Chief of Engineers for Civil Works, stated recently:

> The Chief of Engineers is very anxious, however, that where reimbursement is required that payout schedules conform to the cost allocations, so that over the assumed economic life of the project, which we take as 50 years, full compensation is made to the Government, with interest, except for irrigation. The Government's profit will come after the 50-year period, as many projects will serve indefinitely in the future. (Hearings, H. R. 12080, vol. 2, p. 7, May 1, 1956, 84th Cong., 1st and 2d sessions.)

I agree with General Itschner that many projects will serve indefinitely in the future. The question is, why should the entire cost be paid off in 50 years so that large profits will be made in all years thereafter? Why should the beneficiaries of the product and services bear all the costs during the first 50 years? Wouldn't it be more equitable to spread the cost more consistently with the useful life of the project? We do not believe that there would be much advantage to extend the payout period beyond 100 years because of the added interest component. The Trimble bill provides that the useful life of the project should be used if it is less than 100 years.

Mr. Chairman, we believe that this is a more realistic approach to this problem than is now used.

4. The Trimble bill also provides for a more realistic determination of the interest rate to be paid on the investment. It provides that "the rate of interest shall be equal to the average rate of interest (as determined by the Secretary of the Treasury) borne by all marketable interest-bearing obligations of the United States forming a part of the public debt and issued by the United States during the 15 fiscal years immediately preceding the fiscal year in which the funds are first appropriated." Since the interest rates fluctuate so sharply over relatively short periods, it would be far better to take a 15-year average than to use the current rate. Those projects built in periods of low interest rates would be favored over those that happened to be built in periods of high cost of money.

Budget Circular A–47 provides for the use of the average rate of interest on United States obligations which would have terms of maturity of 15 years or more where the project has a useful life of 15 years or more. Under A–47, revised, the interest rates would be announced from time to time by the Bureau of the Budget on the basis of current Federal long-term borrowing rate. The right to fix the interest rate should not be left to the Bureau of the Budget. Judge Trimble's bill provides the best way of determining the interest rate.

5. Mr. Chairman, there is another important and fundamental feature of H. R. 7362 found in section 16 (a) and (c). I believe there will be general agreement with section 16 (a), which provides that the entire river basin shall be considered as a whole for formulating comprehensive plans for its development. There might be rather general agreement that such river basin shall be considered as a whole for justification purposes, for recommendation to Congress for authorization and appropriations but when we come to section 16 (c) agreement ceases.

Section 16 (c) provides for the same approach to testing the feasibility of a multiple-purpose development as in planning, recommending, and authorizing. Why should we comprehensively plan for a river basin development and then test bit by bit the feasibility of it? In rural electrification, area coverage is practiced. This means that everybody gets service so long as it can be justified on an overall basis. Thousands of farmers today would be denied electric service if every individual farm standing alone had to pass the economic test.

This same principle should apply to a comprehensive river basin plan. The important thing is that the entire project stand the feasibility test and not that every segment must stand up with a favorable benefit-cost ratio. Must important parts of comprehensive plans be abandoned merely because they will not show a net benefit when their inclusion is important to the plan, although including them does not reduce the project below the feasibility level?

Someone has said that this section violates the principles of economics. There is hardly a business in the country that does not operate some segment of its business at a loss. These losing segments cannot be abandoned because they are important to the remainder of the business and the losses can be absorbed by the other segments of the business. For example, a business may be operating a delivery service at a small loss. It can't abandon delivery service because the customers demand it. Rather than violating any principles of eco-

nomics it is a problem which economics has recognized and accepted as a part of the business life of the community.

Mr. Chairman, great strides have been made in broadening comprehensive plans for developing our natural resources. I believe it is time for us to catch up with a broad comprehensive view of feasibility.

6. The Trimble bill provides for the incremental method of cost allocation for hydro power. I have reserved discussion of this feature until last. This bill, as I have tried to show, is much more than a cost-allocation bill, although I do not want to minimize the importance of cost allocation.

Budget Circular A–47, together with the several Federal agencies that operate under it, espouse the separable cost-remaining-benefits theory. They say it shares equitably the joint cost among the several purposes.

The result of this "equitable" sharing of joint cost has resulted in finding that power is infeasible in Lone Rock and Gilbert projects in Arkansas and that the power is priced out of the market. With respect to the Lone Rock and Gilbert projects, Maj. Felix R. Garrett, Assistant Chief of Civil Works, stated that these projects had a favorable benefit-cost ratio of 1.1 to 1 prior to the new formula of cost allocation and a ratio of 0.83 to 1 under the current criteria. (Hearings, S. 497, p. 130, June 10, 1957.) Judge Trimble stated in the hearings on S. 497 (p. 131) that the Lone Rock project had a benefit-cost ratio of 1.19 to 1 under the old rules; that Beaver project in Arkansas has a ratio of 1.11 to 1 but that both of them are now infeasible under the A–47 formula. Major Garrett, referred to above, stated in the hearings on H. R. 12080 (vol. 2, p. 493) that if "taxes forgone" (one of the new brainstorms of the Budget Bureau), was eliminated, the Lone Rock and Gilbert plan would be feasible.

The minority committee report on S. 497 (H. R. 1122, p. 75) states that cost of power in the Lone Rock-Gilbert area ranges from 7.5 mills per kilowatt-hour at Greers Ferry to 10.2 mills per kilowatt-hour at Beaver and that the cost at Lone Rock would be higher. This seems to be clear proof the new formula of cost allocations known as separable costs-remaining benefits so "equitably" allocates joint cost to power that it prices it right out of the market. Practically all of the other multipurpose projects in the Southwest fall into this same category. I doubt that electric cooperatives can afford to buy the power from any remaining projects where the costs are allocated on the separable cost-remaining benefit principles.

The same thing would happen in private industry where joint products or services are produced. For example, if coal had to bear its "equitable" share of the joint costs of a railroad, very little, if any, coal would move by rail. If all byproducts of meatpacking had to bear their equitable share of joint costs, some of these products would not be marketed at all. It is a well-known principle in pricing joint products that each will bear as much of the joint costs as it can.

Incremental and separable costs may be considered as one and the same. To illustrate:

Specific flood control costs	$20,000,000
Specific power costs	45,000,000
Joint flood control and power costs	40,000,000
Total	105,000,000

Multiple purpose project	$105, 000, 000
Single purpose flood control	50, 000, 000
Separable power costs	55, 000, 000
Specific power costs	45, 000, 000
Remainder	15, 000, 000

In this example the cost allocated to power shares $10 million in the joint costs. I maintain this is "equitable" sharing because, as has been demonstrated, it is all of the joint costs power can share without being priced out of the market.

Mr. SAYLOR. Suppose you had a valley project wherein you had 1 feature or 1 dam that you could erect which had tremendous benefit-to-cost ratio, and there was nothing else in the entire valley which could be developed but had a positive benefit-to-cost ratio. Would you be in favor of developing that entire basin on that basis?

Mr. BLALOCK. If that project did the job that needed to be done for the entire river basin, then I should say that should be the only project that should be built.

On the other hand, if that project standing alone did not complete the job and if the added benefit ratio that it had would help to build some other projects that were needed in the river basin, then I would say that the strong should help the weak to the extent that the strong can, so that the whole project can be done.

Mr. SAYLOR. Just what job do you want done? Do you want to take every river from its mouth to the headwaters and have a series of dams the entire way up?

Mr. BLALOCK. Of course your river basin study would determine what project should be built and what should not be built.

Mr. SAYLOR. What should and should not? You just said it is to be built if the overall picture shows it is on the positive side.

Mr. BLALOCK. I said this: If it is important in the plan, and yet that bit cannot stand the economic test standing alone, but it is important to the plan, and the rest of the project will bring it up so that the whole comprehensive study can be justified, then if that is important to the plan it should be built. It should not be thrown out merely because standing alone it cannot bear the economic feasibility test.

That is a very common experience in our economic life, Mr. Congressman. No railroad today could operate if every bit of its traffic had to pay its full cost.

Mr. SAYLOR. That is probably an understatement. You perhaps have not seen the railroad figures in the past month. The railroads lost $47 million in February.

Mr. BLALOCK. But when they were prosperous they could not do that. In almost every business we have some part of it has to be carried on, and yet that part is not profitmaking. Many businesses carry on delivery services and they do not make money out of delivery services.

Mr. SAYLOR. The principal reason the railroad services carry it on is that the ICC says they cannot give it up.

Mr. BLALOCK. Perhaps the railroad situation is a bad example for me to bring up. It is true not only of railroads but almost every other business. Some segment of the business does not pay its full cost but,

nevertheless, it is important to the business and it must be carried on so long as it does not pull down the rest of the business.

Mr. RHODES. Dr. Blalock, I am interested in knowing what sort of structure you have in mind which would not pull its own weight. We are talking about benefit-to-cost ratio. It might be true that in a comprehensive plan you would have a unit which does not produce power economically, but as I understand it, you would build the unit, anyway, if the unit contributed to some other phase of the plan, such as flood control, fish and wildlife, or something of that nature. Is that what you mean?

Mr. BLALOCK. If that were an important part of the plan, yes.

Mr. RHODES. There should be some overriding importance to the existence of the structure other than the benefit-to-cost ratio.

Mr. BLALOCK. Precisely so, sir.

Take Beaver project. That is an important part of the White River system in Arkansas. In order to get proper flood control on the lower White River in Arkansas we need not only Norfork and Bull Shoals, which already are built and operating, and Table Rock, which is nearly completed, but we also need Beaver, Lone Rock, and possibly Gilbert, which is a tributary.

Now we come along and build Norfork and build Bull Shoals and Table Rock. Then we come along with this new formula, and on the basis of the new formula we find that Lone Rock and Gilbert and Beaver are no longer economically feasible according to this eonomic test.

We know that Bull Shoals is a very valuable project and would stand high on a proper distribution or allocation of costs, and it would help to support the construction of Beaver and Lone Rock and Gilbert, but yet when you have to separate each and every one separately and say it has to stand on its own bottom, then those three projects go down the sink.

Mr. RHODES. Let us consider this, too: If these projects have other values, other than the production of revenue, is not the value of those particular figures shown in the benefit-cost ratio?

Mr. BLALOCK. It should be.

Mr. RHODES. Actually there could not be any part of a project which would not bear its own weight if the benefit-to-cost ratio is figured properly and if it actually in effect meets the test which is set up for any part of the project.

Mr. BLALOCK. Perhaps I include the whole river basin.

Mr. RHODES. We got into a bypass here which perhaps will not have any great effect on the passage of this bill, but I wondered what you meant by a comprehensive plan.

Mr. BLALOCK. It would be construction of all of these projects on the White River. If all are considered together and stand the economic test they should all be built and we should not drop any of them merely because standing alone they would not stand the test whereas some of the others would help build them up.

Mr. RHODES. I cannot agree with you. If they are that valuable they will stand the test if you figure your benefit-to-cost ratio correctly.

Mr. BLALOCK. Sir, on a proper evaluation I think they will stand the test but not according to the new methods.

Even under proper evaluation I can see situations where individual units or parts of a whole comprehensive basin might not stand the test, but if the whole basin will stand the test and they are needed, then I say they should be built.

Mr. RHODES. I disagree with you. I think you have to evaluate the whole plan and take out the projects which do not stand the test under a reasonable figuring of the benefit-to-cost ratio.

Mr. BLALOCK. Much of our difficulty now is an improper approach to evaluating the benefits. Many of the benefits in these projects we are not evaluating at all, such as recreation, or we are giving very slight consideration to it. There are many other features of the project we are not evaluating.

Then we are attempting through new methods to downgrade the value of power and upgrade the cost of power so as to make it impossible or infeasible to develop the power in these projects.

Mr. RHODES. Your criticism to 847 went mainly to the fact that in compairing the cost of hydropower with Federal steam power the comparison was being made with the high offices which probably would not come into existence.

Mr. BLALOCK. That is right.

Mr. RHODES. Is this the criteria you are talking about, the one called alternative justifiable expenditure?

Mr. BLALOCK. No. When we develop a hydro project in order to evaluate the power in that hydro project we attempt to determine what alternative source of power, not alternative justifiable methods.

In the Southwest area an alternative source of power we know would be a privately constructed and privately financed steam plant because there are no other kinds of power down there other than hydro.

Mr. RHODES. I am trying to fit this into the nomenclature which appears in table 1 of the statement of Mr. Robinson.

Mr. BLALOCK. It does not fit in there, sir. I am talking about a different problem. What is the value of this hydro as measured in terms of alternative source of power?

Mr. RHODES. As I understand it, 847 is a document which sets forth the criteria known as separable costs and remaining benefits.

Mr. BLALOCK. That is one of the methods. There are two others but they amount to about the same thing.

Mr. RHODES. What sets forth the criteria known as alternative justifiable expenditure which is column 3 of table 1 of Mr. Robinson's statement?

Mr. BLALOCK. I believe the agreement between the Government agencies, and Mr. Robinson has that in his statement, provides for three methods of cost allocation, but they give top priority and, of course, use the separable cost and remaining benefits method.

They could under certain circumstances use either of the other two.

Mr. RHODES. As to the one you address yourself to mainly, that is the one I call alternative justifiable expenditure, is it not, the comparison of the Federal steam plant with the cost of the hydro plant?

Mr. BLALOCK. No.

Mr. RHODES. Personally I am inclined to agree with you. If the area needs power and it is a question of whether or not you are going to build a hydro plant, it seems to me that you will decide whether

or not to build it on the basis of the cost of alternative source of power which is available and not one which somebody dreams up in a hypothesis.

Mr. BLALOCK. We are in perfect agreement.

Mr. RHODES. Your idea, then, is that since the only possible competitor that you might have would be a steam plant built by private companies that that is the comparison you should use in figuring your benefit-cost ratio?

Mr. BLALOCK. Precisely so.

Mr. RHODES. In other words, you do not gain any advantage from your tax-free status unless that situation is reflected in your benefit-to-cost ratio figures?

Mr. BLALOCK. I think the proper way to evaluate this power is in terms of a real honest-to-goodness alternative source and not some fictitious source.

Mr. RHODES. Would you go even further and say that there should be some expression of opinion or some expression of intent on the part of a private company to build a steam plant to serve the area contemplated to be served by the Federal hydro plant before even that method is used as a yardstick for Federal hydro projects?

Mr. BLALOCK. I would not take that position, sir, because these hydro plants are built as incidental to flood control in an area served by the private power companies, and if these projects were not built they would of necessity have to meet the power needs of the area, so we would not have to ask them whether they will. Of necessity they must build the plants if the hydro is not built.

Mr. RHODES. Would you then go so far as to say you would not build a Federal hydro plant unless there is a utility operating in the area which is not meeting its utility responsibility?

Mr. BLALOCK. Not necessarily. The test there, of course, is this: We are building in the Southwest and I refer to that now, but those are flood control projects and it would make good sense to put in the hydro projects to help pay the cost of the project through the sale of power.

Of course, this power——

Mr. RHODES. You are talking about multi-purpose projects where irrigation is involved, or something of that nature.

Mr. BLALOCK. I think the situation would be the same. We certainly would want to put in the power. It may be a great benefit to irrigation on the one hand, and if irrigation was not present we would want to put in the power, anyway, to help pay for the project.

Mr. RHODES. You have a different situation involved where you have a primary purpose which is other than production of power. You might build a project for flood control, navigation, or irrigation, whether there is any power available or not, or whether the power is marketable at prices which are below the cost of the production from a steam plant.

Mr. BLALOCK. Yes, that is true.

This bill, as I understand it, does not attempt to change the situation with respect to irrigation at all.

Mr. RHODES. All the way through the statement of Mr. Ellis, at least in several places, he mentions where the production of power is not a primary responsibility, or primary purpose, that the incremental value should be used.

Nowhere do I find in his statement the type of yardstick which should be used if irrigation is the primary purpose for the construction of the works.

Mr. Blalock. I think, Mr. Congressman, on page 2 of the bill, section 13 (a) (3), it states:

> In the case of projects having irrigation as one of their primary purposes, the cost of features and facilities of the project which relate to electric power shall be determined and allocated to electric power on a basis as near as may be to the basis on which costs relating to irrigation are determined and allocated.

We think that leaves irrigation precisely where it is today, without any change, and if that language does not do that then certainly you would want the language changed where it would not in any way disturb the present irrigation system.

Mr. Rhodes. I am glad to hear you say that.

Mr. Blalock. With respect to rates on page 5 of the bill we find this:

> Whenever the Secretary of the Interior determines the rates to be charged for electric power from any project on a river, stream, or lake, such rates shall be established so as to recover, through annual depreciation charges, the costs allocated to the features and facilities of the project, other than land and land rights, which relate to electric power plus interest on remaining investment thereon—

and this is the language I want to call to your special attention—

> the costs without interest allocated to the features and facilities of the project which relate to irrigation but which are beyond the ability of the irrigators to pay.

In other words, we do not want to disturb the present situation with respect to irrigation at all.

Mr. Rhodes. That is all I have, Mr. Chairman.

Mr. Aspinall. I will now recognize the gentleman from Pennsylvania.

Mr. Saylor. On page 4 of your statement, Doctor, you answered a number of questions of Mr. Rhodes with regard to the first sentence of that paragraph. I think you have given us something to think about in determining what should be the criteria in the area.

Now I am interested in the second sentence.

> After the project is completed, any power sold—

and I notice now you do not say "any power sold" but you say "any power sold to private companies"—

> should be sold to them on the basis of costs and not at costs of a theoretical, nonexistent federally constructed steam plant.

Mr. Blalock. I am sorry that slipped in. It should have been "sold to anyone": private companies or anyone else.

Mr. Saylor. That is what I wanted to ask you. The law at the present time charges the administrator who distributes power not to sell it at less than cost.

Mr. Blalock. There was no intention to infer that.

Mr. Saylor. I am sure of that.

Now let me ask this: If in this basin you have developed you have one project, and it is a very good project, and you have all the others which will not stand on their own, are you in favor of pooling all of the power in that entire basin to determine cost?

Mr. Blalock. I did not mean to segregate power. I would say all of the benefits in all of the projects measured against all of the costs

and all of the projects should stand the feasibility test, but if there are some important parts of the system plan which, when treated separately, do not stand the economic test, but they are important, necessary and desirable, and when the other projects will carry them without taking it below the economic test, then, sir, I say we should build the whole plan and include those projects.

Mr. SAYLOR. Now let us assume that we build these projects in a basin. Are you in favor of keeping the preference clause as it stands today in using the power which is in that basin?

Mr. BLALOCK. I do not know of any reason for changing the preference clause.

Mr. SAYLOR. I am very much interested. The other people who live in the area are still citizens of the United States, are they not?

Mr. BLALOCK. Yes, certainly they are.

Mr. SAYLOR. They are still people who pay taxes, despite the fact that they might not qualify as preference customers. Is that right?

Mr. BLALOCK. That is right, they would pay taxes.

Mr. SAYLOR. I want to know what those other people who are not preference customers have done which would deny them as citizens of this country the right to get power from a project which used their tax money to build it when the needs of the preference customers in the immediate area have been taken care of.

Mr. BLALOCK. There are two aspects to that problem, sir. One is partially social.

We have been desirous in this country of making power available to those who had not heretofore been able to get it from the large privately financed companies.

We have favored a policy of giving some preference to our small municipal systems in the country which were publicly owned and to our coopratives. I do not think that is a bad policy, sir. I think it tends to equalize the benefits.

Mr. SAYLOR. You have not heard me say there was anything wrong with that. However, you know and I know that within a certain radius of a generating site, when you transmit power beyond that minimum radius there is a loss of power.

I have absolutely no objection to giving to the preference customers who live within that radius all the power they can use. But if there is more power, why should not those other American citizens who live in that area be entitled now to buy that power?

Mr. BLALOCK. You mean after the preference customers have been taken care of if there is power left over, it should be sold to the others? Is that your statement?

Mr. SAYLOR. That is right.

Mr. BLALOCK. There would be no objection to that. Power should be used.

Mr. SAYLOR. I am glad to hear you say that, because that is not what some of the people who have sat in that chair have said. They said you take the preference customer and regardless of how far away he lives.

Your approach to me is a very realistic approach and one which I can go along with.

Mr. BLALOCK. We certainly do not want to try to send power beyond its economic transmission distance.

Mr. EDMONDSON. If you would yield, Mr. Saylor.

Has the gentleman read the remarks of Mr. Ellis on the subject of the area coverage obligation of the REA's which was that those remarks would be inserted in the record by the gentleman who appeared yesterday?

Mr. SAYLOR. I have not.

Mr. EDMONDSON. That gives a sound discussion of the obligation which the REA undertakes to cover an area as a basis for supplying the REA's with preference power to the extent of their coverage obligation, and that obligation is part of their covenant with the Government when they receive the power and get the 2-percent loans from the Government.

Mr. SAYLOR. I wish that that in reality were true, because we have had some hearings before this committee in the not too distant past when an outfit out in California, known as the Sacramento Municipal Utility District, came in and I thought brought a great deal of disgrace upon the REA and its setup. They borrowed $24 million, not to supply power for the purpose REA was set up, but to supply municipalities. In other words, they went around the original purpose of the act.

Mr. BLALOCK. I don't know whether I fully understand you, Congressman, but I do not think any cooperatives or public bodies would want to be a dog in the manger when power is over and above their requirements and say, "You just hold that for us. We do not want anybody else to get it."

I think what they say is this: Due to their preference they are perfectly willing to sell the power that they do not now need to somebody else, but their loads are growing and their needs are growing and they do not want 5 years from now to wake up and find all this power thrown to somebody else on a long-term contract not recoverable for them.

Mr. SAYLOR. In other words, they want the right to say that they are not only preference customers today and that they are to be allowed to anticipate reasonable needs, but they want to say they are such preference customers that the other folks who pay taxes to the State, county, and local municipality are to be deprived of that power and the right to plan for themselves.

What I am trying to figure out is what is the makeup of the group which tries to say what the rest of the citizens who have through their taxes made this tax-exempt group possible, are doing to deprive them of the right to participate in something which their taxes have created?

Mr. BLALOCK. Let me say this, and I speak for the Southwest because——

Mr. ASPINALL. Time is up. If you have a short answer I will accept it.

Mr. BLALOCK. I will make it short. It will not be fully clear, I am sure.

I venture to say that the private companies and the customers of the private companies, if they are passing on the savings in the Southwest, are getting more benefits out of the hydro power in the Southwest than are the preference customers today.

Mr. ASPINALL. As I understand it, Doctor, you will be available if we want you to come back?

Mr. BLALOCK. If I can be of any service to the committee I will return at your call, sir.

Mr. ASPINALL. I have a statement here from Mr. V. B. Shaw, member of the Advisory Committee on Power for the Southwest and manager, Wood County Electric Cooperative.

Mr. EDMONDSON. Mr. Shaw has been here since yesterday and available to testify.

I would like to ask that this statement be made part of the record as though read at this time.

Mr. SAYLOR. I will reserve the right to object, Mr. Chairman, though I will not object at this time.

I would like to have the privilege of writing to Mr. Shaw with regard to his statement and ask him certain questions and get his answers made part of the record following his statement.

Mr. ASPINALL. Without objection, that will be done, and the statement will be inserted at this point.

(The statement referred to is as follows:)

STATEMENT OF V. B. SHAW, MEMBER OF ADVISORY COMMITTEE ON POWER FOR THE SOUTHWEST, AND MANAGER, WOOD COUNTY ELECTRIC COOPERATIVE, QUITMAN, TEX.

Mr. Chairman and gentlemen of the committee, I am V. B. Shaw, of Quitman, Tex., chairman of the Advisory Committee on Power for the Southwest and manager of the Wood County Electric Cooperative, Inc., Quitman, Tex., serving 6,900 members in 9 counties in northeast Texas. As a member of the Southwest Advisory Committee, I represent 76 cooperatives in the State of Texas, a majority of which will be affected either directly or indirectly by the increase in power costs of the Southwestern Power Administration.

Our cooperative has been built and the retail rate schedule based on the wholesale power rate formerly charged by Southwestern Power Administration and we have signed contracts with a number of large power users based on our former rate which is very little higher at the present than our present wholesale rate and leaves no margin to operate on. We also have our quoted rate to the residential which is far too low for the present wholesale rate.

The increase in rates lowered our debt service ratio for the last 4 months of 1957 6 percent and will reduce it at least 15 percent for the year 1958, which increase in rate has averaged $1,736.50 per month for the last 4 months in 1957 and will be even greater monthly in 1958 and will place our cooperative in jeopardy unless some radical change is made.

We have 9 cooperatives in our area that are buying Southwestern Power Administration power that will be equally, if not more seriously, affected than we are. The private power companies anticipated this raise and have raised our rates to correspond with them.

As I pointed out in the beginning, we are a nonprofit organization and have set our retail rates to correspond to our former wholesale rates and unless this is changed, it will force us to increase the retail rates to our people who are small-income farmers and who cannot afford to pay higher rates, which is likely to deprive some or all of them of the benefits of electricity.

Under the present practice we never know what to make plans for in the future. This rate structure is subject to change at any time. This puts us in a position of not being able to make a firm commitment to a prospective consumer. By the time the new contract is made we could get a raise in wholesale rate that would render the contract impossible to live with.

We feel like if Congress could set the formula for our rates we could at least know what we could depend on.

Mr. ASPINALL. Mr. Rex E. Dewey, manager of KAMO Electric Cooperative, Inc., was here yesterday but was unable to be recognized. He has a statement he would like to have inserted in the record as if read.

Is there an objection?

Mr. SAYLOR. Reserving the same rights and provided I have the same permission asked previously.

Mr. ASPINALL. Without objection, both requests are granted.

STATEMENT OF REX E. DEWEY, MANAGER, KAMO ELECTRIC COOPERATIVE, INC.

Mr. DEWEY. Mr. Chairman and members of the committee: My name is Rex E. Dewey. I am manager of KAMO Electric Cooperative at Vinita, Okla.

A little over 2 years ago I was here in Washington and testified before a joint meeting of this committee and the Public Works Committee of the Senate concerning certain increases in rates, proposed by the Southwestern Power Administration, for power that they market in the Southwest. Others testified at this same time showing their concern over methods used to determine costs allocated to power generation in the flood control dams in the Southwest. Testimony at these hearings showed that there had been a controversy over cost allocation methods, between agencies, ever since the Southwestern Power Administration had been charged with marketing the power generated at these dams. Not only has there been a controversy over methods to be used in cost allocation, but there has been and still is a difference of opinion over the length of the pay-out period to be assigned to amortization of the dams.

In the audit reports to the Congress by the Comptroller General in 1952, the Comptroller General stated that—

> The difference between the amounts allocated to power and annual power charges by the corps and the Department result principally from (1) the allocation method used, (2) the number of years used in amortization of the Federal investment, and (3) the inclusion by the corps of interest during construction.
>
> The corps and the FPC concur on the use of the separable costs-remaining benefits method for cost allocations on 10 of the above projects. Under this method, each purpose is required to carry at least its separable cost, and provision is made for proportional sharing of the savings resulting from multiple-purpose development. The incremental flood-control basic method of allocation is accepted by the 3 agencies for the Denison and Norfork projects, but the corps has used a 50-year amortization period. The Department has used the 100-year amortization period. In general, the position of the Department is that the remaining 10 projects are basically flood control as well. Under these circumstances, the development of power is only incidental to and a byproduct of the provision for flood control. Therefore, the amount charged to power should be only the additional costs required to develop power at these projects.
>
> The costs allocated to power and the annual power charges must be finally decided before any determination can be made that the rate schedules meet the requirements of section 5 of the Flood Control Act of 1944. So long as the allocations are not fixed, the adequacy of the financial administration of the power function will remain in doubt.

This same information was repeated in the 1953 audit, and in 1954 the audit by the Comptroller General included this statement:

> The unresolved questions relating to cost allocations, depreciation, and interest on the Federal investment, however, makes it impracticable to show combined financial statements for the projects in the Arkansas, White, and Red River Basins at this time.

Sometime during 1954, the Corps of Engineers, the Federal Power Commission, and the Department of Interior finally agreed to use a separable cost-remaining benefits method of cost allocation for power

in the dams. Although these three agencies are now agreed on this method, there is in the future nothing to prevent these agencies from reopening this question and then agreeing to some other method of cost allocation or to a pay-out period of different length. The basic controversy has not been solved, merely shelved, pending the future pleasure of one or another of these agencies. Such controversy, however, does not apply to Denison and Norfork Dams, two of the dams constructed in the Arkansas, White, and Red River Basin development plan. Here, because Congress specifically directed that the incremental formula be used to determine cost allocation, there has never been any doubt or question as to what part of the cost of these two dams was chargeable to power.

Congressman Trimble has provided, in his bill, H. R. 7362, for the very things that have been asked for by the Bureau of the Budget over the past several years in their audit report. This bill will place the authority for making the decision on cost formulas in Congress where it belongs. Determination of cost formula will not then be at the whim of some governmental agency. The bill will also provide for amortization of projects over a reasonable number of years for such projects. This bill will remove the fear, of customers of the Southwestern Power Administration, of a rate redetermination every time someone gets a different idea about cost allocation. This uncertainty should be removed. Congress should have the authority to determine the cost formula that will be used on every project. H. R. 7362 will place this authority with Congress where it rightfully belongs.

We believe that, as Congress has authorized these flood control projects, so should they determine the methods of cost allocations assigned to flood control, water supply, recreation, streamflow regulation, navigation, and power.

Mr. ASPINALL. I have a statement from William C. Wise, who is in the room, and who would like to have his statement inserted as if read.

Mr. SAYLOR. Reserving the right to object under the same circumstances, I will not object at this time.

I have looked at Mr. Wise's statement and I think basically it is very good.

There are a number of questions I would like to submit to him.

Mr. ASPINALL. With that understanding, the statement will be inserted as if read.

STATEMENT OF WILLIAM C. WISE ON BEHALF OF MID-WEST ELECTRIC CONSUMERS ASSOCIATION

Mr. WISE. Mr. Chairman and gentlemen of the committee, my name is William C. Wise and I am appearing here on behalf of the Mid-West Electric Consumers Association. The Mid-West Electric Consumers Association is an organization recently formed by rural electric and municipal power systems in the Missouri River Basin from the States of Colorado, Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota, and Wyoming. Their purpose is to protect the interests of both the rural and urban consumers of electricity. They have requested me to testify on their behalf at these hearings, so as to make known their position on the pending legislation, H. R. 7362, and their reasons for that position.

The preference customers in the Missouri River Basin are especially concerned with the question of the proper allocation of costs in connection with multiple-purpose dams, because they have been and still are dependent upon receiving an adequate supply of low-cost power from those dams. It must be kept in mind that many parts of this area are very thinly populated and there are rural areas where the average consumer density is less than one to the mile. In a large part of the basin, there would be no rural electric systems but for the supply of low-cost power from Federal installations. As a matter of fact, REA conditioned many of its loans in this area on the obtaining of this low-cost power and placed stop orders on loan funds until the supply of such power became assured. The continued availability of this low-cost power is essential to the continued existence and success of many of the rural systems in this area.

I want to make it absolutely clear at the outset that nothing that I say here should in any respect be construed as being critical of the use of the waters for irrigation or of the present method of having the power users reimburse the Government for that part of the Government's irrigation costs which are beyond the ability of the irrigation users to pay. We have always worked, and are now working, very closely and in complete harmony with the irrigation users. We believe that the need of water for irrigation is an extremely important need and one which we want to help them meet. We also fully realize that they cannot afford to repay to the Government all of the money spent by the Government to provide irrigation facilities and we think it entirely fair and proper that the power users repay those costs which are allocated to irrigation facilities but which the irrigation users cannot pay.

In addition to our understanding of and sympathy with the problems of the irrigation users, we also know that they are, in almost every instance, our consumers. We know that we furnish much of the power that is employed to pump the water used for irrigation. We are joined with them not only in sympathetic understanding, but also as supplier and consumer of electricity.

Thus, we want to emphasize that we have no argument whatsoever with the irrigation users. We are in perfect agreement with them and we fully support their position.

In this connection, I want to express to this subcommittee the deep gratitude of our people for all that this subcommittee has done over the years to provide for the needs of the irrigation users. The irrigation was needed not only for the farmers directly using it, but for the general welfare of the area and of the country. We know that without the sympathetic understanding and treatment given to this problem by this subcommittee the splendid results that have thus far been attained could never have been brought about.

Our purpose in appearing here is to point out how improper and unfair it is to permit allocations of costs for multiple-purpose dams to be made by executive department agencies without there being firm and definite ground rules first determined for them by the Congress, and to urge that Congress legislate those ground rules. It seems fundamental that the Congress should formulate such ground rules. It is Congress which authorizes these multiple-purpose dams. It is Congress which appropriates the money for their construction. When

Congress does these things, it has clearly in mind all of the purposes which it wants to accomplish by these multiple-purpose projects.

Congress knows the primary reasons why it authorizes a project and it knows all of the other reasons as well. It is because of these reasons that the project is authorized. Yet the very purposes for which Congress authorizes a multiple-purpose project can be defeated by improper cost allocations and improper charges for benefits. Thus, it will do the preference customers not one bit of good to have power facilities installed in a multiple-purpose project if the costs allocated to power use and the resulting charges for power are so great that the preference customers cannot afford to buy the power.

Historically, the Congress has always shown great concern for the welfare of the power consumers. But that concern will not help us if the adverse trend in cost allocations and rates is allowed to continue. Therefore, the power consumers in the Missouri River Basin hope and urge that Congress itself will lay down the basic rules governing the cost allocations for multiple purpose projects.

We want to make it perfectly clear that we do not object to paying our fair share. We expect to—we want to—pay our fair share, and we have no objection to paying for that part of the irrigation costs which the irrigation users cannot pay. However, we do object strenuously to being priced out of the market by having costs allocated to us which should not be allocated to power use. And we object also to the uncertainties that we must live with because of the power, and the recent tendency, of the executive branch to reshuffle the allocations of cost, always to the disadvantage of the power users. As the situation now exists, we find an increasing tendency to allocate to power use more and more of the costs of the entire project, and what is more, we can never be sure that tomorrow there will not be a new allocation of costs which will allocate even more of the costs to power use and result in even higher rates. This is what has been happening.

We, in the Missouri River Basin, are disturbed by the obvious unfairness of the present method of cost allocation, not merely as citizens, but also because we are directly and vitally concerned with the problem. By way of illustration, let us consider what has happened with respect to cost allocations for Fort Randall.

In 1952, the Bureau of Reclamation set up allocations on Fort Randall as follows:

Power	$61,800,000
Flood control and navigation	136,685,000

Then, in 1955, the Bureau of Reclamation set up these new cost allocations:

Power	$139,922,000
Flood control and navigation	54,563,000
Recreation	515,000

Thus, in 1955, allocated costs for flood control and navigation were reduced to approximately 40 percent of the 1952 allocation, while the costs allocated to power were increased by more than 125 percent. These are the facts with respect to Fort Randall Dam, a dam whose primary purpose was to be flood control. These figures are almost unbelievable and yet they are the actual figures. It is impossible to understand how any such drastic change in cost allocations can be justified. We can understand how a cost allocation for power facilities

can be increased because costs have increased, but in the case of Fort Randall Dam, we were dealing with a completed dam. The change in cost allocations did not involve any changes in actual costs, but merely a change in allocation as between functions. If this pattern is allowed to continue, it is easy to see that the preference users will have to look for other sources of power than the Government's dams.

Let us now take a look at the allocation and repayment chart for the Missouri River Basin as a whole, prepared by the Bureau of Reclamation in 1955.

Allocation and repayment

	Allocation	Repayment
Reimbursable:		
Irrigation	$2,235,749,000	$385,528,000
Commercial power (includes $53,814,000 for interest during construction)	1,144,238,000	[1] 3,066,405,000
Municipal water (includes $389,000 interest during construction)	7,600,000	[1] 7,600,000
Recreation	16,037,000	----------
Fish and wildlife	342,000	----------
Buford-Trenton work, investigations of inactive units and other Interior agencies	55,567,000	----------
Total reimbursable	3,459,533,000	3,459,533,000
Nonreimbursable:		
Flood control and navigation	1,849,576,000	----------
Fish and wildlife	1,950,000	----------
Rapid City Air Base water supply (includes $37,000 for interest during construction)	1,037,000	----------
Total nonreimbursable	1,852,563,000	----------
Deferred:		
Investigations of potential units	6,665,000	----------
Future power system additions	56,978,000	[2]
Total deferred	63,643,000	----------
Total allocation and repayment	5,375,739,000	[3] 3,459,533,000

[1] Also interest paid on unpaid balance of cost allocated to this function.
[2] Considered self-liquidating.
[3] Exclusive of payments for self-liquidating future additions to the power system.

It can be seen from this chart that although the allocation of costs to power is $1.14 billion, the power users will have to repay about 3 times that amount, or $3.07 billion, and that, of the entire reimbursable amount of $3.46 billion, the power users will have to repay $3.07 billion. Thus, of the total project construction cost, irrigation is allocated 41.5 percent and will repay only 7.2 percent. Power is allocated 21.3 percent, but will repay 57 percent of the total cost. Those who purchase the power generated at the plants of the Missouri River Basin project, will repay 88.6 percent of all reimbursable costs. Navigation and flood control are allocated 34.4 percent and will repay nothing. In these circumstances, where the power users are expected to and are willing to pay not only for their own proper costs but also for those costs for irrigation which the irrigation users cannot afford to pay, it is absolutely essential that the power users be protected against unfair allocations of costs, either to power or to irrigation.

There is only one way in which the power users can be protected and fairness insured, and that is by having firm ground rules formulated by Congress for the allocation of costs. And there is only one way to avoid the uncertainty and chaos that can result from important changes in the allocation of costs, and that, again, is by having

these firm ground rules. Leaving the responsibility and the power for making these allocations in the hands of the executive is the same as saying we cannot, we will not, have these firm ground rules, because even if they were to formulate such rules today, we have no assurance as to what will happen tomorrow. Only if Congress itself formulates those rules can we know that they are the rules and will continue to be the rules, unless and until Congress itself decides to change the rules—and, of course, whenever Congress considers such a change we know that we will have the opportunity to be heard and to present our views and arguments to a sympathetic group, an opportunity which is denied us at present by the executive.

We feel that we have every reason to fear for our future if the executive is to continue to exercise its own day-to-day discretion in making cost allocations. Not only has the recent history of executive department action with respect to cost allocations alarmed us of iself, but other actions by the executive department have also threatened our welfare, and in some cases our actual existence. Therefore, it is even more important than it otherwise would be that, in a field where Congress can and should act; namely in the matter of cost allocations, it do act.

As an example of executive action which creates and justifies our fear of the executive, a few years ago the Department of the Interior promulgated a new set of marketing criteria for the sale of Government power in the Missouri River Basin. Those criteria, if applied as written, would have destroyed the preference laws which Congress has written into the Federal power marketing statutes—and in destroying those preference laws, the criteria would have so increased the cost of power to the preference customers that all would have been seriously damaged, and others would have been completely destroyed. Through hearings held by a congressional committee, these facts were developed and, as a result, the marketing criteria were not applied as written and preference was sustained. It was Congress which gave us the sympathetic forum which enabled us to be heard and saved.

As another example of such Executive action, more recently, in the budget recommendations submitted to Congress by the executive department for fiscal year 1959, no new starts were provided for in the Missouri Basin and delays were recommended in the completion of the Oahe, Garrison, and Fort Peck projects. This action was taken in spite of the fact that the preference customers in the Missouri Basin will be faced in the near future with a serious shortage of power. A most comprehensive study of the effect of the budget recommendations has been made by Mr. Virgil Hanlon, the manager of the East River Power Cooperative which serves many of the distribution cooperatives in South Dakota. Mr. Hanlon presented his study to Mid-West Electric Consumers Association at a meeting held in Minneapolis, March 12, 1958. He had been informed by General Galloway, the district engineer in charge of the Missouri Basin development, that the budget recommendations would result in the Oahe Dam being delayed 1 year, the additional units at Garrison 5½ months, and the additional units at Fort Peck 7½ months. General Galloway indicated that an increase in appropriations in the amount of $8,200,000 would eliminate these delays and enable the additional power to be produced at the dates first estimated. Mr. Hanlon's study showed that the delays

caused by the budget recommendations would cost our members in the Missouri Basin $12 million in their power bills and that the Government would lose $12 million in revenue which would be collected from rate payers to be applied against the cost of the project. The interest on the $8.2 million which General Galloway indicated was the amount needed to bring the project back on schedule would be only $246,000. Thus, it can be seen that the executive department was willing to cost the farmers and other users of Missouri Basin power $12 million and to lose $12 million in payments to the Federal Government, merely to show a saving of $246,000 in interest during the next year.

The needed appropriations to take care of Oahe, Garrison, and Fort Peck, as well as those which are needed to start Big Bend Dam in South Dakota and Yellowtail in Montana, fortunately do not depend upon Executive action alone and our Missouri Basin cooperatives and municipalities are greatly cheered by the action of the House Appropriations Committee in refusing to accept the Executive requests and in sending them back to have the delays eliminated from the projects now under construction and to provide for new starts. You can readily see why we are appealing to Congress.

Another and very convincing example as to why the preference customers in the Missouri River Basin fear for their very existence, if Congress continues to leave with the Executive full and final responsibility for cost allocations and rates, is found in the recent recommendations of the Executive concerning the financing of the rural electric systems. First, the Executive recommmended to Congress the passage of legislation that would so increase the interest rates which the rural electric systems would have to pay for their loans that, if enacted, such legislation would destroy the rural electrification program as we know. Then, just within the past several weeks, the Executive recommended to Congress the passage of legislation which would force the rural electric systems to obtain their loan funds from the open money market. I will not take the time of this subcommittee to analyze this proposed legislation; but I will state firmly and without qualification that that legislation, if enacted, would definitely destroy the rural electrification program. To the best of my knowledge, to date these latter proposals have found no sponsors in the Congress and no bills have been introduced to bring them before the formal consideration of Congress. Fortunately for us, none of these proposals by the Executive can be made effective without action by Congress. And we feel so certain that we are in the right that we are confident that Congress will not enact such legislation.

The pattern is the same throughout—it is only Congress that we can look to for protection. We are protected from adverse action by the Executive only because that action cannot be taken without congressional approval in the form of legislation. And so it is that only Congress can protect us on cost allocations and rates. What we now want is congressional protection with respect to the allocation of costs and the determination of rates in connection with multiple-purpose dams. We want Congress to say what rules the Executive shall follow in these matters. Only in this way can we be assured of fair treatment.

By every consideration it is not only fitting and proper that Congress formulate these rules, but it is absolutely necessary that Congress do so. These rules are, in many respects, as important as the

authorization for the dams themselves. Since they are that important, they should be formulated by Congress and not left to the Executive.

What we need is congressional action to insure fairness in cost allocations. H. R. 7362 does this. It sets forth a reasonable and fair set of ground rules for the determination of allocations. Since other witnesses have discussed H. R. 7362 in detail, I will not burden you with any further discussion on it. I wish to note, however, that although we have dwelt, in this statement, primarily with the cost allocation and rate features of the pending bill, we also wish to endorse the other provisions of the bill. We wish especially to emphasize to this subcommittee the importance to the Missouri River Basin of Congress adopting the river-basin concept provided for in H. R. 7362. Our experience in the few years in which our projects have been in operation convinces us that the citizens residing in the Missouri Basin area can receive the benefits to which they are entitled only if the basin is developed in accordance with comprehensive plans formulated for the basin as a whole.

On behalf of the Mid-West Electric Consumers Association, I want to urge you to pass this bill as the only proper method of determining the important issues of proper cost allocations and rates, and as a necessity if multiple-purpose dams are to serve the very purposes for which Congress authorizes them.

Mr. ASPINALL. I understand, Mr. Wise, you can be here later on if necessary?

Mr. WISE. That is correct, sir.

Mr. ASPINALL. I have a statement from Mr. Alex Radin, representing the American Public Power Association, and with the understanding that Mr. Radin will be before the committee at our request if we so desire, I would like to have his statement printed in the record, but not as if read.

(The statement referred to follows:)

STATEMENT BY ALEX RADIN, GENERAL MANAGER, AMERICAN PUBLIC POWER ASSOCIATION

This statement is being submitted in behalf of the American Public Power Association, 1025 Connecticut Avenue, NW., Washington, D. C. The American Public Power Association represents more than 800 local publicly owned electric utilities, principally municipally owned utilities, in 40 States, Alaska, and Puerto Rico.

Member systems of this association have a direct interest in H. R. 7362, since many of these systems purchase all or part of their wholesale supply of electric power from multiple-purpose Federal projects. The two main problems affected by H. R. 7362—criteria for determining the feasibility of projects, and methods for allocating costs among the various purposes of multiple-purpose projects—are matters of serious concern to this association.

It is apparent that at present there is no clear-cut uniform congressional policy concerning the subjects covered by the Trimble bill, and no adequate procedure for review of decisions by executive agencies on cost allocations.

Two considerations therefore are of great importance to your action on this bill:

1. Congress should fix general policies and practices for determining the feasibility of multiple-purpose Federal water resource projects, and the cost allocations for these projects. The present situation, in which the executive branch has changed the ground rules by shifting from one method to another, is unwise, and has caused undue hardships in certain parts of the Nation.

2. Congress should decide on policies and practices which will stimulate, rather than discourage, maximum, basinwide development of our Nation's great water resources.

The idea of developing our water resources on a comprehensive, basinwide basis is so plainly sound, logical, economical, and essential that it hardly seems necessary to belabor the point. Our Nation has a profitable example of this multiple-purpose development on the Tennessee River and its tributaries, where a series of dams and reservoirs serve several purposes, with untold benefits in flood control, navigation, power generation, recreation, national defense, and related areas. We have the know-how, the undeveloped water resources, and the financial ability to do this kind of river development job in many other parts of the Nation.

Multipurpose development takes wasting, often damaging waters and turns them into economic and social assets. It is both preventive and productive—preventing the human suffering and loss of lives and property that come from ravaging floods; and producing economical electric power, increased navigation, important water supply, and other benefits, such as pollution control, silt abatement, irrigation, recreation, etc. Controlled water is also an asset in the industrial development of river basins. While we think of flood control primarily in terms of preventing flood damages, there is also the fact that great land areas along our rivers are not used—for industrial and other development—because of the threat of floods.

In national emergencies, full development of our water resources becomes even more significant. Inadequate development weakens our basic economic strength, deprives us of the use of readily available assets which could be put to immediate productive use. Full development brings more electric power, a key ingredient in emergency production; adds an alternative transportation system for the Nation, thus giving us more flexibility for movement of goods; and gives the Nation a source of energy that can be made available in an instant, to serve important powerloads.

Have we fully developed our water resources

Sometimes we hear that all the Nation's best hydroelectric and multipurpose water resource sites have been developed, and that there is little potential for future development.

The facts indicate that actually we have only begun to develop our water resources.

Electric power.—The most recent Federal Power Commission study of the Nation's hydroelectric potential showed that as of January 1, 1953, only 20 percent of the Nation's potential had been developed. Some 88 million kilowatts of electricity remained to be developed just 5 years ago—compared with less than 22 million kilowatts in use. Even assuming that the 6½ million kilowatts under construction in 1953 are now completed, the Nation still has well over 80 million kilowatts of undeveloped hydroelectric capacity. This is 60 percent of the total capacity of all generating plants of all kinds today.

To be more specific as to the location of undeveloped hydropower: As of 1953, only 28 percent of New England's hydroelectric potential had been developed, with more than 3 million kilowatts untapped. In the Middle Atlantic area, the States of New York, New Jersey and Pennsylvania, only 21 percent of the hydroelectric potential had been developed, with well over 6 million kilowatts ready for development. In the West North Central area (Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, and Kansas), just 9 percent of hydro was developed; more than 6 million kilowatts was undeveloped. In the Pacific area—Washington, Oregon, California—where considerable development has taken place, only 18 percent of the potential hydro had been developed in 1953, and the staggering total of 30 million kilowatts remained to be developed. In the Mountain area (Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, and Nevada), there were 22 million kilowatts undeveloped in a region where hydro potential is only 12 percent developed. Samples such as this indicate clearly that, proud though we are of the great projects that now dot the country, we have really only begun the job.

While experience has shown that the Federal Government should play an important role if maximum, comprehensive development of our water resources is to be achieved, policies of the Government in recent years have done little to advance such development.

Flood control.—Even with the progress made in recent decades, newspapers each year still carry stories of human tragedy and property destruction from floodwaters. The Nation is still far from protecting its citizens against cruel and merciless floods. It has been estimated that flood damage has cost the American people some $5 billion over the past 10 years.

Navigation.—In peacetime and in national emergency, the Nation's inland waterways system is of tremendous value. As more rivers are developed, and more navigable channels are added, the Nation's commerce is stimulated. And in emergencies, waterways add an alternative transportation system, giving the Nation more flexibility in moving goods and materiel.

An example of the benefits of waterways development for navigation purposes is provided by the TVA. In 1933, river traffic was negligible on the Tennessee River. In 1957 more than 12 million tons of freight moved over the Tennessee River's waterway, an increase of nearly eightfold in river traffic since the entire navigation system was completed in 1945. Savings to shippers through lower transportation charges exceeded maintenance and operating costs by more than $16 million—a return of more than 11½ percent on the net navigation investment of $138 million.

Water supply.—Little mentioned two decades ago, water supply is now recognized as an urgent problem. The Department of Commerce has estimated that between the present time and 1975 the need for water for drinking and bathing purposes would increase 65 percent; the need for water for irrigation would go up 42 percent, and the requirements for industrial processing would increase 100 percent. Storage reservoirs that regulate waterflow provide a dependable, year-round source of water. And they make water available for irrigation needs, even when uncontrolled rivers would be too low to provide water supply. More and more, water supply will be a major factor in water resource development.

Other purposes.—There are other problems that water resource development can help solve: recreation for a growing and increasingly urbanized population; pollution abatement and silt control on many rivers; land protection and use; wild-life conservation.

We have only begun to develop our water resources. Each passing year adds to the urgency for full development.

Allocations of costs

In order to obtain the maximum benefits from all of the multiple purposes of a hydroelectric project, it is essential that there be equitable provisions for the allocations of costs. The problem of allocations of costs of Federal multipurpose projects has long been of concern to our Association. As early as September 26, 1949, the board of directors of the American Public Power Association adopted a statement of Federal power policy which contained the following recommendations:

"(*a*) Congress should fix policies and practices with respect to the allocation of capital at Federal multiple-purpose projects and these policies and practices should be uniformly applied upon all projects.

"(*b*) All administrative action with respect to capital allocations should be made subject to review."

The need for the policies advocated above are clearly indicated in connection with the rate problems which have faced the Southwestern Power Administration, for it is our understanding that one of the principal factors which necessitated their rate increase was the change in the method of cost allocation used by SPA. While earlier SPA rate schedules were established on the basis of an allocation of costs utilizing the incremental costs formula, the new rates were based on the application of the separable costs-remaining benefits formula. This latter formula results in a sharply increased allocation of costs to power. The use of the separable costs-remaining benefits formula is contrary to legislative history of the projects in the SPA area. The conditions under which these projects were authorized strongly support the use of the incremental costs formula, inasmuch as these projects were built primarily for the purpose of flood control.

The effect of using the separable costs-remaining benefits formula rather than incremental costs is shown graphically in computations which I have made from a table submitted by Assistant Secretary of the Interior Aandahl in testimony on February 28, 1956, before the Senate Public Works Committee. The table headed "Investment—Allocation of Investment (1954 Studies)" shows that in the case of the Denison and Norfork projects, the use of the incremental costs formula resulted in the allocation of 31.9 percent and 46 percent, respectively, to power. On the other hand, the use of the separable costs-remaining benefits formula, as applied to the following projects, showed these allocations of the total cost to power: Bull Shoals, 57.6 percent; Fort Gibson, 37.3 percent; Tenkiller Ferry, 51.7 percent; Blakely Mountain, 75.3 percent; Table Rock,

76.7 percent. The average allocation of power in the two projects—Denison and Norfork—which were computed on the basis of the incremental costs formula is 39.3 percent, whereas the average allocation of costs on the projects computed on the basis of the separable costs-remaining benefits formula is 59.7 percent.

This change in the ground rules, namely, the substitution of the separable costs-remaining benefits formula for that of the incremental costs formula, is a serious one for the SPA customers. The inevitable increase in the burden on power which results from the use of this formula not only makes difficult the problem of future planning, but also upsets the conditions upon which certain obligations have been incurred in the past.

Cost allocations procedure of national importance

The problem of cost allocations and the procedures relating to the fixing of such allocations affects not only the SPA area, but also other areas where Federal power is marketed. For example, I would like to call to your attention a situation in the Pacific Northwest which is indicative of the serious nationwide implications of this problem.

On December 4, 1953, the Federal Power Commission announced the allocation of costs on the McNary project on the Columbia River in Oregon and Washington. This allocation, which also was made according to the separable cost-remaining benefits formula, resulted in the assignment of 97½ percent of the joint costs of the project to power, or 92 percent of the total costs.

On December 10, 1953, Gus Norwood, executive secretary of the Northwest Public Power Association, an organization of local publicly and cooperatively owned utilities, wrote the Chairman of the Federal Power Commission that the local public and cooperative electric systems in the Pacific Northwest "have an economic interest in the fairness of the allocation of McNary Dam joint costs since the artificial increasing of the proportionate burden upon power would reflect itself in the form of an increase in power rates. A second concern is that an unwise allocation of joint costs at McNary Dam would stand as a precedent for future projects. Third, an unwarranted increase in power rates would have an adverse effect upon the economy of the Pacific Northwest. Fourth, an unfair allocation to power may preclude non-Federal agencies from constructing multiple-purpose projects since the share which the Federal Government might pay on the basis of such allocations would undervalue the nonpower functions. Fifth, the overburdening of power may retard or stop all future navigation projects on the Columbia River."

On January 4, 1954, the Northwest Public Power Association petitioned the FPC for intervention in this matter, and at the same time applied for a rehearing. In its petition for a rehearing, the association cited nine errors of the Commission in its allocation of costs to the McNary project, and maintained that the legislative history of this project supports, at the very least, a 20 percent allocation of total costs to navigation. Furthermore, the association stated that if the Bonneville project allocation were to be used as a precedent, at the very maximum there would be a 50 percent allocation of joint costs to power.

On January 27, 1954, the Federal Power Commission advised the Northwest Public Power Association that it had declined to accept the association's petition for intervention and application for rehearing. The Commission stated that "in carrying out its function of allocating the costs for the McNary project, the Commission acts solely under the authority of the River and Harbor Act of 1945 and the provisions of the Bonneville Act therein referred to. You will note that these statutes make no provision for the intervention by other parties in the proceeding whereby the Commission determines the allocation of costs of the project. Likewise, there is no provision requiring the Commission to hold hearings, prescribing its procedure, or providing for judicial review of the Commission action. Consequently, we can find no legal basis for the Commission entertaining a petition for intervention or an application for rehearing in connection with the performance of its function under these statutes."

On March 4, 1954, in response to a letter of February 3, 1954, from the Northwest Public Power Association, the Commission declared that it had given further consideration to these petitions, but again declined to permit the association to intervene or to be heard on this matter.

The Commission's letter of March 4, 1954, to the Northwest Public Power Association stated, in part, as follows: "Inasmuch as neither the Bonneville Act, the River and Harbor Act of 1945, nor the Administrative Procedure Act contains provisions requiring the Commission to permit intervention or to hold hearings

in determining project costs allocations, it must be concluded that the Congress intended to commit such determinations to the Commission's discretion. The Commission's action is hence not subject to judicial review under either the River and Harbor Act of 1945, the Bonneville Act, or section 10 of the Administrative Procedure Act."

In the face of this situation, as well as the situation in the SPA area, it is clear that action by Congress is needed if uniform policies governing cost allocations are to be followed and if those most directly affected by allocations of cost are to have a voice in the establishment of these allocations.

Amortization period

A closely related problem to that of the allocation of costs is the question of the amortization period used for Federal projects. Although our Association has not taken a stand on this matter, we note that a 50-year payout period is used in connection with the SPA projects and that this period is used commonly in connection with many other Federal power projects.

However, there is reason to believe that a longer payout period may be appropriate. I call your attention to the fact that the Federal Power Commission, in its publication entitled, "Electric Utility Depreciation Practices, 1951," estimates the life of a hydro plant at 69 years, but this is a composite figure including the dam, structures and improvements, water wheels, turbines, generator, and accessory equipment. Though not specifically stated, the obvious conclusion is that the estimated life of the dam is longer than 69 years because this figure averages in components of comparatively shorter life.

Again, the United States Treasury Department, Bureau of Internal Revenue, in its Bulletin F, Income Tax Depreciation and Obsolescence, Estimated Useful Lives and Depreciation Rates, indicated 150 years as the useful life of a dam. This estimate was made for tax purposes.

Still another reference of interest is the Hydroelectric Handbook, Second Edition, by William P. Creager and Joel D. Justin. Table 4, entitled, "Useful Life of Elements of Hydroelectric Development" (see page 234) indicates that for earth dams, mass concrete and masonry dams, the estimated useful life is believed to be indefinite if these structures are properly repaired and maintained.

In view of these and other references, the provision in H. R. 7362 (section 13 (c) (1)) relating to charges to cover "the useful life of the project or a period of 100 years, whichever is the shorter" is a practical and fair method.

Economic feasibility

In the Association's statement of Federal power policy, adopted in 1949, the following statement is made concerning determination of feasibility of Federal multiple-purpose projects:

"(*a*) The Congress should prescribe standards of economic feasibility for Federal power projects and these standards should be applied to all projects.

"(*b*) With respect to any administrative determination of feasibility of pursuant to standards prescribed by Congress, review should be provided by an independent agency.

"(*c*) In determining economic feasibility, each project should stand upon its own merits, but the interrelation of the proposed project with other projects (existing and potential) within the areas should be fully evaluated.

"(*d*) Minimum standards of feasibility should be such that power revenues, after payment of power operation, including depreciation, and maintenance expenses, should be adequate to provide for the payment of interest upon the capital investment of the United States chargeable to power and reasonably to insure the United States against loss of any part of such capital investment."

It seems to me that these principles, set forth more than 8 years ago, are in large part covered in the provisions of H. R. 7362. Of special importance is the idea that Congress should set up standards. And I would again like to emphasize that administrative determinations should be subject to review.

At its most recent annual convention, the American Public Power Association adopted a resolution urging Congress to "fix policies and practices with respect to the making of cost allocations at multiple-purpose water resources projects" and resolving that the Association supports the sponsors of H. R. 7362 and related bills "in their efforts to seek remedial legislation * * *." A copy of the text of this resolution is attached as exhibit A.

EXHIBIT A

RESOLUTION No. 13

Adopted June 27, 1957, at the 14th Annual Convention of the American Public Power Association, meeting in New York City.

COST ALLOCATIONS

Whereas electric rates at certain multiple-purpose projects have been artificially increased by means of unfair allocations of costs to power;

Whereas several bills, including the Trimble bill, H. R. 7362, have been introduced for the purpose of returning to Congress jurisdiction over allocations; and

Whereas other bills, such as S. 1164 and H. R. 4823, provide for making a cost allocation for recreation as one of the purposes of multiple-purpose projects: Now, therefore, be it

Resolved, That the American Public Power Association urges Congress to fix policies and practices with respect to the making of cost allocations at multiple-purpose water-resources projects; and be it further

Resolved, That the association supports the sponsors of H. R. 7362, S. 1164, and H. R. 4823 in their efforts to seek remedial legislation looking toward fair policies and practices relating to cost allocations and other conditions which will conform to the policy of Congress that Federal power be marketed as nearly as possible at actual cost.

Mr. SAYLOR. I have had a chance to look over Mr. Radin's statement. I think he has pointed out many fine points included in the bill, and he has also pointed out some things he criticizes in the bill. It is a very forthright statement and he is to be commended for it.

Mr. ASPINALL. The chairman wishes to join with the gentleman from Pennsylvania in his valuation of that statement. I think it is one of the most constructive statements we have had from that particular organization for a long, long time.

As I understand it, permission was given here today to Cecil I. Neely, R. E. Holladay, H. M. Dillon, H. M. Maddox, Walter Northcutt, J. S. Robbins, R. C. Boecher, D. G. McLellan, Carl Booher, Don Dage, H. G. Templeton, William T. Crisp, and Julius Helm to have their statements printed in the record, not as if read but just printed in the record, upon examination and approval by the gentleman from Nebraska, Dr. Miller, and the gentleman from Wyoming, Mr. Thomson, and the chairman of the committee.

The chairman of the committee will state that he already has gone over these and his approval is granted, but the approval of the other two members of the committee will have to be secured before those statements are printed in the record.

The following statements are inserted in the record subject to approval as above stated by the chairman.

(The statements referred to follow:)

STATEMENT OF CECIL I. NEELY, MANAGER, NORTHFORK ELECTRIC CO-OP, SAYRE, OKLA.

Mr. Chairman and members of the committee, my name is Cecil Neely. I am the manager of the Northfork Electric Cooperative at Sayre, Okla., a comparatively small cooperative on the extereme west edge of central Oklahoma. We serve an agriculture area with wheat and cotton being our principal income, with a small number of grade A dairies.

Unfortunately, prior to last year, we suffered 5 years of drought and last year when the cotton was practically made, a hard early freeze damaged the green and half-opened bolls to the extent the cotton marketed, instead of the normal price of 30 cents and upward, had to be sold at prices ranging 22 cents downward to 9 cents, with parts of it being unmarketable.

The normal cotton acreage for Beckham County, where I reside, is approximately 100,000 acres and in a normal year will produce approximately 40,000 bales. Under the allotment program, nearly 64,000 acres is allotted. Of this, 13,000 acres was placed under contract to the soil bank during the first 4 days the office was opened to accept contracts.

The Department of Agriculture stopped accepting contracts and applications for at least 10,000 more acres are on file should additional funds be granted for this purpose. This would result in the curtailment of 49 percent of our normal acreage.

The effects of the soil bank on the wheatgrowers is equally as serious. The farmers have been encouraged to participate in this program by the bankers, implement dealers, and FHA, because they are far more liberal on the farm loans with an assignment of soil bank acreage than with regular farm operation.

You no doubt are curious as to how this information would have any affect upon the legislation now being considered, but our farmers borrowed almost $3 million from the United States Government to build this system to serve themselves, believing in a continued strong agricultural economy, serving between 4,400 and 4,500 rural consumers. As a result of the above-mentioned facts, our system now serves less than 3,200.

Landowners have actually forced tenants from their land because it was more profitable to them to put their land in the soil bank. Tenant farming is practically nonexisting in our area already, and please do not misunderstand me, the Administration's policies are not entirely responsible for our condition, since trends and nature have imposed some of these hardships on our people.

As of January 1, this year, after our cooperative depleted its reserves to a dangerous point, dipped into the funded reserves of 1 percent per annum of plant investment, which is considered the minimum renewal and replacement reserves of a cooperative by REA and the electrical industry, our board was forced to impose a 24-percent increase on the retail rate on our people.

This was climaxed by a so-called 27-percent increase on our wholesale power cost through the Southwest Power Administration and that rate increase was justified by the Department of Interior by arbitrarily changing the method of cost allocation of public power generated in multiple-purpose dams. However, this is more than a 27-percent increase. During the last 5 months this new rate has been in effect, the following computations reveal that it has actually been a thirty-three-plus percent increase on our cooperative.

Computations on rates:

Old Rate		New Rate	
Demand	1.35	Demand	1.60
Excess energy	.004	Energy charge	.002
Adder	.0006	Do	.003
		Excess	.005
		Adder	.0006

Month	Old rate	New rate	Difference	Percentage
September 1957	$3,711.07	$4,823.24	$1,112.17	29+
October 1957	3,455.12	4,620.80	1,165.68	33+
November 1957	3,333.70	4,525.77	1,192.07	35+
December 1957	3,549.03	4,694.29	1,145.26	32+
January 1958	3,485.13	4,667.21	1,182.08	33+
Total for 5 months	17,534.05	23,331.31	5,797.26	33+

This additional burden to our already practically bankrupt farmers is very serious. When the members were notified that an increase in rates would be necessary, petitions bearing several hundred and reportedly several thousand names, were mailed to the office of our United States Senator Kerr, soliciting his aid in reducing these rates.

Gentlemen, we are making this appeal to you that we need all of your support if we are to be able to continue to conduct our business successful and to repay our obligation to the Federal Government.

We believe that the Congress of the United States, which authorizes the construction of these dams, decide and declare the formula of cost allocation to be used for a particular project and should be decided once and forever, except it be reviewed and approved by the Congress of the United States.

STATEMENT OF R. E. HOLLADAY, JR., MANAGER, NORTHEAST LOUISIANA POWER COOPERATIVE, WINNSBORO, LA.

Mr. Chairman and gentlemen of the committee; my name is R. E. Holladay, Jr. I am manager of the Northeast Louisiana Power Cooperative of Winnsboro, La., a corporation organized by the farmers under the laws of Louisiana and the Rural Electrification Act, to serve a seven-parish area of northeast Louisiana with rural lights and power. We serve approximately 2,260 miles of distribution lines.

I am State chairman of the Advisory Committee on Power for the Southwest, representing Louisiana. This is a voluntary organization consisting of the States of Louisiana, Texas, Arkansas, Missouri, Oklahoma, and Kansas. Our primary objective is to assure the rural electric systems, in this six-State area, adequate power at reasonable rates. Hence, our appearance before your committee today. First, let me say, that we are in full support of the Trimble bill and its overall objectives.

Throughout the many years that the rural electric systems in Louisiana negotiated with the commercial utility companies for reasonable rates, very little was done, until the inauguration of the Southwestern Power Administration. Many of the rural electric cooperatives in Louisiana directly benefited when the yardstick pattern, on wholesale rates, was established by Southwestern Power Administration at 5.6 mills with a 50-percent load factor. But, just as the Southwestern Power Administration proved to be the yardstick in lowering the rates for the cooperatives in Louisiana and the Southwest area, so will the 27½ percent increase imposed by the Interior Department in 1956, in wholesale rates, or roughly 7.1 mills at 50-percent load factor, will prove to be the future pattern for rate schedules. In 1957, our own rural electric system, purchased 23,258,812 kilowatthours at an average rate of 5.2 mills for a total of $118,726.09. Using the present Southwestern Power Administration rates, of 7.1 mills would have increased our power cost by $46,411.48.

Gentlemen of the committee, we see no reason why Interior Department made these increases. There is no justification whatsoever, and in our judgment we construe this as a punitive measure against the rural electric systems. They have arbitrarily juggled the formula and adjusted the cost allocations on the dams of the Southwest to force hydroelectric power to bear the lion's share of the construction cost of the multipurpose dams. As an example, the cost allocation of Denison Dam, which was explicitly set by Congress, amounted to 32 percent of the total cost. When you think in terms of the construction of Table Rock Dam and the unrealistic cost which they have established to this dam, that is for power to bear 76 percent of the cost, emphatically brings out the insidious intent of the Interior Department to hurt the rural electric systems. We all know that the generation of hydroelectric power is incidental to the main purpose of flood control. Yet, the formulas established by the Interior Department make flood control incidental to generation of hydroelectric power. These inaccuracies should be corrected by the Congress.

We strongly feel that inasmuch as Congress appropriates the necessary funds for the construction of all multipurpose dams and other public works, that Congress and Congress alone, should determine what cost should be allocated to the generation of hydroelectric power.

Accordingly, we fully support the Trimble bill and its objectives. It would return to Congress the control of determining cost allocations for each project.

Mr. Chairman and gentlemen of the committee, it is my sincere hope that your committee will, after due thought and consideration, approve the Trimble bill in its present form with the ultimate objective of preserving our natural resources for the benefit of all the people.

Thank you.

STATEMENT OF H. M. DILLON, MANAGER, EAST CENTRAL OKLAHOMA ELECTRIC COOPERATIVE, INC., OKMULGEE, OKLA.

Mr. Chairman and gentlemen of the committee, my name is H. M. Dillon. I am the manager of an REA-financed cooperative, the East Central Oklahoma Electric Cooperative, Inc., at Okmulgee, Okla. We serve an area comprising all or substantial parts of eight counties, extending directly south of Tulsa, Okla., some 60 miles.

Our purpose here is to assist our good friend, Congressman James W. Trimble, of Arkansas, in his efforts toward getting favorable action by this committee

on House bill No. 7362, the Trimble bill. As vice chairman of the National Water Resources Committee, under the leadership of Arkansas' ex-Governor, Sidney S. McMath, chairman, we have, for some 2 years' time, worked consistently with irrigation and public power group leaders toward drafting and amending the Trimble bill. It now has the active support of widespread irrigation and public power groups in the Missouri Valley Basin, the Pacific Northwest, the Southeast, the Tennessee Valley area and throughout the entire Southwest. The Advisory Committee on Power for the Southwest aggressively supports the Trimble bill. The National Rural Electric Cooperative Association at its Dallas, Tex., 16th annual meeting on February 6, 1958, passed Resolution E–1 favoring immediate passage of the Trimble bill. Over 6,400 members of REA-financed cooperatives from all parts of the United States attended this NRECA meeting and approved this Resolution E–1, copies of which many of you gentlemen have received.

The Trimble bill is not a partisan issue—many leaders in both parties actively support it. About February 5, 1958, the United States Senate passed, with but one dissenting vote, Senate Resolution No. 148. Our Oklahoma Senator, Robert S. Kerr, sponsored this resolution. It highlights and outlines in detail the extreme need for the Trimble bill.

Favorable action on the Trimble bill will accomplish the following:

1. It will enable Congress to regain and reassert its authority to establish proper allocations of costs, reimbursable to the Government as well as nonreimbursable costs that represent great tangible benefits to the areas throughout the country, where federally financed dams and hydroelectric power facilities are most sorely needed. As examples in the Southwest, Denison Dam on the Red River between Texas and Oklahoma and Norfork Dam on the White River in northern Arkansas were properly authorized years ago by Congress. By action of Congress 32 percent of the cost of Denison Dam was to be reimbursable to the Government from the sale of hydroelectric power. At Norfork Dam the figure set by Congress was 41 percent.

2. It will withdraw from various administrative bureaus, including the Bureau of the Budget, power to make decisions that these bureaus have usurped from Congress, during the past few years. As an example the Bureaus, by taking every advantage of the so-called separable cost-remaining-benefits formula have set the percentage of costs, to be paid for out of electric power revenues at Table Rock Dam in southern Missouri (now under construction) at 76 percent. In the case of Eufaula Dam on the North Canadian River in our immediate area of Oklahoma, the figure is 84 percent. These percentages, more than double those at Denison and Norfork Dams, actually double the cost of hydroelectric power to be produced at Table Rock and Eufaula Dams. Such increased costs cannot be absorbed by the marketing agency for the Government, Southwestern Power Administration. Their customers, municipalities and cooperatives, are then obliged to accept further SPA rate increases.

3. It will develop an average payout life of approximately 100 years, which was the original payout period on which basis earlier hydroelectric power rates were designed. The administrative bureaus and particularly the Bureau of the Budget under its A–17 revised ruling, have most effectively, during the past 5 years, changed this payout life so that in most cases the estimated payout life of 50 years is actually used. It becomes quite apparent that this flagrant attempt to increase the costs of Government generated hydroelectric power has been accomplished by the close cooperation of and for the benefit of private power companies, who quite naturally desire the highest possible electric rates that can be justified in their areas. Does such a policy conform to the wishes of Congress? Is it in accord with the Flood Control Act of 1944? Isn't the lowest justifiable cost for Federal hydroelectric power the proper solution?

4. Further the Trimble bill will carry out the wishes of the Comptroller General of the United States as he expressed them in 1954, as follows:

"In previous years a jurisdictional dispute has existed between the Department of Interior and the Corps of Engineers, Department of the Army, concerning the allocation of construction costs of multipurpose projects. We have been informed that general agreement on allocation of costs of multipurpose projects has been reached with the Corps of Engineers. *The procedures agreed upon, however, leave unresolved the basic problem of final responsibility for making allocations.* We believe that the basis for the differences that existed which were fundamntal in character *should be resolved with finality by clarifying legislation.*" (Italic supplied.)

The various administrative bureaus including the Army Corps of Engineers, the Bureau of Reclamation, and the Department of Interior's marketing agencies

would submit engineering, statistical, and accounting data that would enable Congress to determine the benefits, both tangible and intangible, as well as the pro-rata costs that should be established for each of these major purposes of Government-financed dams. These purposes are:

1. Flood control
2. Commercial, industrial, and municipal water
3. Navigation
4. Irrigation
5. Recreation
6. Downstream benefits, elimination of some levees, etc.
7. Soil conservation and prevention of pollution
8. Hydroelectric power

Should not Congress, exercising its legal inherent right, then determine the various cost allocations, including those for electric power?

5. By the use of the "incremental cost" method, the Trimble bill will enable the Congress to determine the cost of any proposed dams including all required facilities except electric power. The sponsoring agency's engineers will provide the Congress with cost estimates of such a dam and in addition such engineering data and estimated costs as will provide for the installation of hydroelectric generation. Such additional costs are the "incremental costs" to be used in determining the cost of electricity to be generated at that dam. This method was the one used by the Congress in determining the 32 percent figure for Denison Dam and the 41 percent figure for Norfork Dam, previously referred to. Is that method not a fair and equitable formula? Is it not the often-expressed intent of the Congress?

6. In addition, the Trimble bill will materially assist in stabilizing power rates. During the past 5 years the administrative bureaus have made innumerable revised cost allocations on hydroelectric dams and have arbitrarily increased the percentage of costs to be reimbursed from the sale of electric power. Unbelievable as this may sound, they have in many cases made this percentage of costs, chargeable to electric power, retroactive to the day the hydro generators started producing electricity. The effect on the marketing agency, Southwestern Power Administration in Tulsa, Okla., in the case of the Southwest, has caused several crises. SPA can be operating with a million dollar black figure one evening and upon receipt of a letter the following morning, be a like amount or even more in the red. Such an unstable cost of power results in complete unstability of SPA rates over a period of a very few months. With SPA rates in the Southwest as the yardstick, private power company rates also are increased in many cases some weeks before SPA's rates go up. Apparently they know in advance the moves that Federal administrative bureaus will make and govern their rate advances accordingly.

7. The Trimble bill is so flexibly designed that electric power can subsidize irrigation costs in those areas of the Nation where such a subsidy is considered necessary and justifiable after all engineering and economic facts are made available by the administrative bureaus to the Congress. Even such problems as fish ladders in the Pacific Northwest and navigable river channels during certain seasons in the Missouri Valley Basin can be equitably handled by the Congress. The administrative bureaus again furnish the facts, properly summarized, and the Congress makes the determination of final cost allocations. Is such a procedure not only both fair and equitable but properly a function of the Congress?

Referring to paragraph 6 of this statement, involving the instability of SPA rates in the Southwest, our cooperative at Okmulgee, Okla., actually spent $20,430 in additional electric power costs during 1957, as an immediate direct result of last year's 27 percent SPA rate increase. Even if no further similar additional rate increases are made during the next 10-years' time this 27 percent rate increase, with our anticipated load increases, will cost our cooperative $373,000. It is extremely unlikely that our margins will cover such an increased cost of our electric power. That means a substantial rate increase to our farmers and other consumers of electric power, probably within the next 3 or 4 years. Such a rate increase to our farmers, especially under present farm economic conditions in eastern Oklahoma can only mean adding insult to injury and greatly lowered revenue to this cooperative.

Finally in summarizing:

1. Multipurpose dams are basically flood control facilities.

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2. Commercial, industrial and municipal water and water conservation, as well as navigation, recreation and down stream benefits should in each case carry their pro rata portion of the costs of such dam projects.

3. Hydroelectric power should provide revenue to cover all its incremental costs and in justifiable cases should substantially subsidize irrigation development.

As we have stated to this committee previously for the past 3 years, electric power from multipurpose dams is actually the tail of the dog. It should not be expected to wag the dog. The Trimble bill will permit each of the various benefits to the areas served by these multipurpose dams to fairly and equitably carry its share of the actual costs of construction.

May we have the favorable action on the Trimble bill from this committee that it so well deserves?

FACTS ABOUT OUR COOPERATIVE

1. Members served: 7,131, including 4,922 farmers, 1,250 producing oil wells and 959 other rural residential and commercial consumers.
2. Net loss of farm members: 311 since 1953.
3. Idle farm services December 31, 1957: 1,327 not including 434 others, whose services have been retired due to farm economic conditions in our area.
4. Miles of REA line: 2,978, including 405 miles of 3 phase.
5. Total electric (capital) plant: $6,178,052.39.
6. Average electric revenue per month 1957: $60,961.
7. Taxes paid, 1957: $18,240.
8. Power purchased, 1957: 4,929 kilowatts, 28,584,380 kilowatt-hours.
9. Total cost of purchased power, 1957: $171,506.
10. Average annual payroll: $270,000 (72 employees).
11. Overall present margin of cooperative: $131,000.
12. Total purchases in area, 1957: $537,000.

STATEMENT OF J. M. MADDOX, MANAGER OF THE SOUTHWEST RURAL ELECTRIC ASSOCIATION OF TIPTON, OKLA.

Mr. Chairman and gentlemen of the committee, my name is J. M. Maddox. I am manager of the Southwest Rural Electric Association, a rural electric cooperative which supplies power to 5,200 consumers over 2,400 miles of distribution lines in southwest Oklahoma and adjacent counties in Texas.

In Texas we purchase wholesale power from West Texas Utilities Co., and in Oklahoma from Western Farmers Electric Cooperative of Anadarko, Okla.

Western Farmers Electric Cooperative has contractual arrangements with the Southwestern Power Administration for the purchase and exchange of power. The increase in the cost of power by SPA to its customers means that this cooperative is paying far more for power than was anticipated when much of our system was built. The increase will cost in excess of $30,000 for the year of 1958. As the power purchases increase the cost differential will also increase.

It never occurred to us that some administrative agency of the Government would place itself in the position of jeopardizing the very basis of the rural electric cooperatives even to the point, in some cases, endangering the soundness of the loans made by the Government.

In 1956 we were told that the Department of Interior was asking for an increase of 40 percent in the wholesale rates for power sold by SPA. Then in 1957 the rates were actually increased near 27 percent and we were informed that this had to be done because hydro power must sustain an additional burden of the cost of multipurpose projects.

We feel that House Resolution 7362 should be passed. We cannot conduct the business of our cooperatives in a businesslike manner, we cannot plan for the future or make competant daily decisions if the very basis on which the business is founded is subjected to the whims of an administrative agency, which has demonstrated that it does not have any regard for a cost arrangement that carries with it some semblance of stability.

With the passage of House Resolution 7362, our duly elected representatives in Congress would determine the necessity and fairness of the cost to be borne by hydro power, and the rates to be charged for the power produced at multipurpose projects.

We do not believe that the Congress ever intended that the cost allocations of these projects should be changed at frequent intervals to the detriment of rural electric cooperatives. We urge the passage of House Resolution 7362.

Thank you.

STATEMENT OF WALTER NORTHCUTT, PRESIDENT, OKLAHOMA ELECTRIC COOPERATIVE, NORMAN, OKLA.

Mr. Chairman and members of the committee, the board of trustees of the Oklahoma Electric Cooperative wish to enlist your favorable support of the above-mentioned House bill 7362 or similar legislation which would put the matter of cost allocation of multiple-purpose dams, including power back into the hands of Congress. We feel that the percentage of cost which is to be allocated to power and the other benefits should be definitely determined before the construction of the project as in the case of the Denison Dam constructed on Red River between the States of Oklahoma and Texas . The portion allocated to power was set at 31 percent of the cost and approximately 41 percent on the Norfork Dam. However, the cost allocation charge to power on some others have been much higher, which has caused an overall increase in the rates of wholesale hydro power from the dams. The water impounded by the dams in this area is primarily controlled by the rainfall in the watershed of each particular project. This amount varying considerably 1 year to another. Therefore, only a small portion of the power which sometimes could be generated at these dams can be classed as firm power, but can be used as peaking power to a great advantage. Electricity cannot be stored up but water can be to a certain extent and then turned into power at times when it is most needed.

Our cooperative has borrowed from the Government $3,484,000. These loans were based on feasible study based on approximate cost of electric power at the time the loans were made . Due to the change in formula of allocating cost of power which has caused increases of wholesale power rates it will cost this cooperative $32,480 more for electric power during the year of 1958, than it did for the same amount of power during the year of 1957. From estimated amounts our power which will be used in the next 10 years, it will cost our cooperative a little over half a million dollars more than the previous rate. Therefore, we feel that there should be a definite means which would more nearly determine a realistic pay out of all hydro facilities and at the same time give the cooperative and other purchasers of power more nearly guaranteed rates at which this power should cost us over the period of our loans. This cooperative is now serving 4,685 rural farms and rural establishments and in the past few years due to the necessity of consolidating farms and drought our people are leaving the farms. We have retired 650 idle services and still have 713 idle services on our system. An increase in cost of wholesale power works a hardship on the cooperatives and any further increase in the cost of operation might bankrupt the cooperatives.

STATEMENT OF J. S. ROBBINS, MANAGER, JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC., JENNINGS, LA.

Mr. Chairman and gentlemen of the committee, my name is J. S. Robbins of Jennings, La. I am manager of the Jefferson Davis Electric Cooperative, Inc., an REA cooperative serving approximately 3,100 (3,850 before Hurricane Audrey) members in 5 parishes in southwest Louisiana. I am here representing the statewide Louisiana Electric Cooperative Association composed of the 13 REA co-ops serving over 105,000 farm families in Louisiana (over 50 percent) and also a member of the advisory committee on power for the Southwest representing the 6-State area.

Your favorable consideration of the Trimble bill is earnestly and sincerely requested. We believe that passage of the Trimble bill will place responsibility of the allocation of costs on multi-purpose projects back in the hands of Congress for approval and decision itself, will stabilize rates on an equitable basis, will maintain 100-year pay out and have a favorable economic effect on the farm and rural areas as well as the feasibility of future projects.

The Southwestern Power Administration, although not having power directly available to Louisiana does have a yardstick effect in Louisiana and the whole Southwest area. As an example, the rural electric cooperatives in Louisiana,

approximately 8 years ago, were experiencing an 8.25 mill wholesale power rate, which in our opinion, was an unreasonable rate. Organization of a generation-transmission cooperative by the 13 co-ops in Louisiana with the intent of borrowing money from REA to build a generation plant to serve our Louisiana cooperatives with wholesale power resulted in the commercial companies immediately extending a new contract with lower and more reasonable rates. Needless to mention, the rate extended by the commercial companies and accepted by us was almost identical to the schedule A rate which was in effect by the Southwestern Power Administration at that time, namely, 5.6 mills per kilowatt-hour at 50 percent load factor. Therefore, no loan was obtained for the cooperatives to accomplish this purpose.

The Secretary of Interior has seen fit to change the former method by which allocation of costs to power on multipurpose projects is made resulting in a 27½ percent increase in the Southwestern Power Administration's wholesale power rate to municipalities, cooperatives, and other customers. It is our understanding that this increased power rate was predicated or based upon increased allocated cost of hydro power charged to the several dams now constructed or under construction in the Southwest area by a change from the incremental to the separable-cost remaining benefits formula. If this is so, who is authorized to make this change in the formula and the allocation of cost to power? What formula is used and why or how is it that this cost has increased so greatly? We note from SPA figures that Dennison and Norfork Dams have approximately 32.5 percent and 46.5 percent respectively, of the total cost charged to power. The Congress approved the costs to be allocated to these two dams which were based on the incremental formula. Therefore, these could not be changed without approval of the Congress. Allocation costs of other dams in the area which Congress did not themselves approve are as follows: Bull Shoals, 63.7 percent; Fort Gibson, 36.4 percent; Tenkiller, 52.2 percent; Blakely Mountain, 75 percent; and Table Rock, 77.5 percent. A review of these figures reveals that the costs allocated to power have been almost doubled. This seems to be an unfair method to justify a rate increase, especially since the Congress did not authorize or approve the change of formulas or cost allocation increases. Since these figures were compiled last summer we are advised that the allocations to cost of power have again been increased and are gradually adjusted upward. This means that soon another rate increase can be expected. It is also noted that very little or no charge is allocated to water conservation, recreation, navigation, pollution, etc.

These matters, as now being administered, are so changeable what assurance have the municipalities, co-ops, and other customers that other increases won't be forthcoming? We believe that if Congress would assert itself in regard to the formula used in the allocation of costs to power that the rates could be stabilized and future planning be accomplished on a businesslike and equitable basis.

I would like, at this point, to refer the committee to the audit reports from the General Accounting Office on the Southwest Power Administration for the fiscal years ending June 30, 1952, 1953, and 1954. Excerpts are as follows:

COST ALLOCATIONS EXCERPTS FROM COMMENTS BY GENERAL ACCOUNTING OFFICE

Excerpts are taken from audit reports to the Congress of the United States regarding the activities of the Southwestern Power Administration, an agency of the Department of the Interior for fiscal years 1952, 1953, and 1954.

Fiscal year ended June 30, 1952

Page 1: "Of primary significance in this report are the comments and recommendations on the *jurisdictional dispute between the Department of the Interior and the Corps of Engineers, Department of the Army, on the allocation of costs in multiple-purpose projects.* This dispute extends also to other water resource programs in which the Department and the corps have responsibilities. * * *"

Page 2: "The act (Flood Control Act of 1944) further provides that the power rate schedules are to become effective upon confirmation and approval by the Federal Power Commission. While the Commission has given tentative approval, all rate schedules of SWPA, with the exception of those in one contract, were subject to review and reapproval not later than February 13, 1953. Upon the request of the Administration this action was deferred by the Commission. In 1952 the Department of the Interior transmitted to the Federal Power Commission a payout study showing the proposed allocation of costs applicable to 12 Corps of Engineers multiple-purpose projects in the Southwest. *The proposed*

allocation of estimated cost of construction to power and the estimated annual cost of operation and maintenance, including amortization of the investment, *show that SWPA would be able to justify rates for the sale of electric energy which are about one-half of those that would be necessary* to amortize the Federal investment based on cost allocations made by the Corps of Engineers." (Parentheses supplied.)

Page 16: "* * * *The allocation of costs to power and to other purposes for the projects in the Southwest has not been finally resolved because of the controversy on responsibility between the corps and the Department.*"

Page 18: "*The costs allocated to power and the annual power charges must be finally decided before any determination can be made that the rate schedules meet the requirements of section 5* of the Flood Control Act of 1944. So long as the allocations are not fixed, the adequacy of the financial administration of the power function will remain in doubt."

Page 19: "Based on information we have obtained from the interested agencies, *we have concluded that the issue on the responsibility for making allocations of costs among all of the purposes served will not be resolved by these agencies.* In a letter dated April 15, 1952, to the Administrator of Southwestern Power Administration, the Chief of Engineers stated:

" 'The Corps of Engineers is responsible for constructing, operating and maintaining the projects for all of the purposes involved up to the point where power is turned over to the Department of the Interior. Carrying out those responsibilities involves maintaining cost accounts and records, maintaining a comprehensive audit program covering all of the activities of the corps, and making equitable allocations of costs among all of the purposes served.' "

During the 82d Congress, a subcommittee of the Committee on Public Works, House of Representatives, held hearings to study civil works. In testifying before this committee on May 7, 1952, the *Under Secretary of the Interior stated:*

"Under the Flood Control Act of 1944, the Secretary of the Interior is charged with the marketing of the power, which marketing is to be based on the allocation of costs and sound business principles. *The agency which is charged with the marketing of the power cannot very well be subject to cost allocations made by one or two other agencies.*"

In testifying before this committee on May 2, 1952, *the Chairman of the Federal Power Commission* submitted recommendations for consideration by the committee and the Congress. Two of these recommendations are as follows:

"1. *That the Congress be more definite in laying down the standards, particularly with respect to cost-allocation procedures and periods for amortization of investments, under which the power generated at Federal reservoir projects shall be sold.*

"2. *That the agency of the United States, if any, to which the Congress may hereafter give effective ratemaking authority* with respect to the sale of power produced at Federal reservoir projects also be given complete authority to allocate the costs of such projects."

Page 20: "The subcommittee's report (House Committee Print No. 23) on the study dated December 5, 1952, *stated that the agencies are operating in considerable confusion in the problem of allocation of costs and that the Congress has not been adequately specific in outlining a policy to be followed in cost allocations.* In discussing the responsibility for allocation of costs the report stated:

" '*There is, however, no general legislation on the subject and no specific provision for allocating costs* of any functions of either other [sic] specific projects or general categories of projects. Section 5 of the Flood Control Act of 1944 provides for the Federal Power Commission to approve rates for sale of surplus electric energy from dams built by the Corps of Engineers and for the Department of the Interior to sell such energy. This provision by implication seems to require a review by the Federal Power Commission of allocations to power at the projects involved but *the absence of specific legislations leads to some confusion.*' "

Three of the recommendations contained in the subcommittee's report are as follows:

"1. That all costs of a water-resource development project be allocated so that *each authorized purpose of the project will bear its own fair share of these costs and share equitably in economies or savings resulting from the use of a multiple-purpose development.*

"2. That the proposed allocation of costs for a project to the various purposes of water-resource development be initiated by the pertinent construction agency and that the comments of agencies properly concerned with the allocation or the project be made on such proposed allocation.

"3. *That final allocations of capital cost be made only after completion of construction when all investment costs are known.*"

Fiscal year ended June 30, 1953

Page 8:

"*The above act* (Flood Control Act of 1944) *does not specify the agency responsible for allocating the construction and operating costs to the various purposes on multiple-purpose projects constructed and operated by the Corps of Engineers.* Both interested agencies base their claim for responsibility for making the allocations on the provisions in the basic legislation. *The jurisdictional dispute* between the Department of the Interior and the Corps of Engineers on the allocation of costs was discussed in detail in our audit report of Southwestern Power Administration for fiscal year 1952. At June 30, 1953, *this dispute had not been resolved.*" (Parentheses supplied.)

Page 12:

"*The construction costs allocated to power and the annual power charges must be finally determined before power rates can be properly established in accordance with the requirements of section 5 of the Flood Control Act of 1944. As long as the allocations are not fixed it is impossible to state affirmatively that the accumulated income from operations is sufficient to cover the cost of producing the electric energy and to amortize the Government's investment.* We were informed by the Administration that they recognize the deficiency in revenue as shown above, and it is expected that the power rate schedules will be increased in the near future."

Page 43:

"* * * *Because of this situation it is impossible to state affirmatively that the accumulated income from operation is sufficient to cover the cost of producing the electric energy and to amortize the power portion of the Government's investment in the projects.*"

Fiscal year ended June 30, 1954

Pages 9 and 10:

"Section 5 of the Flood Control Act of 1944 provides, in part, as follows: * * * The above act does not specify the agency responsible for allocating the construction and operating costs to the various purposes on multi-purpose projects constructed and operated by the Corps of Engineers.

"*Our reports for fiscal year 1952 and 1953 on the Southwestern Power Administration suggested that action be taken by the Congress to end the jurisdictional dispute between the Department of the Interior and the Corps of Engineers on the allocation of costs in* multiple-purpose projects. Early in fiscal year 1954 the Department established a cost allocation committee to establish principles to be used by departmental agencies in the allocation of costs of multiple-purpose projects. The committee succeeded in reaching agreement on principles to be followed within the Department, and *in March 1954 representatives of the Department met with representatives of the Federal Power Commission and the Corps of Engineers to discuss principles and policies to be followed in allocating the cost of multiple-purpose projects. No written agreement resulted from these meetings.* In a memorandum dated April 2, 1954, by the Assistant Secretary of the Interior to heads of bureaus and offices in the Department, it was stated that general agreement on cost allocation of multiple-purpose projects had been reached with the Corps of Engineers. The memorandum provided also for joint participation by field offices of the interested agencies of the Department in making cost allocations and for referring failures to reach agreement in the field or by staff members to the Secretary for consideration."

Page 13:

"*The construction costs allocated to power and the annual power charges must be finally determined before power rates can be properly established in accordance with the requirements of section 5 of the Flood Control Act of 1944.*"

Page 15:

"* * * *Because of this situation it is impossible to state whether the accumulated income from operations is sufficient to cover the cost of producing the electric energy and to amortize the power portion of the Government's investment in the projects.*"

Pages 36 and 37:

"* * * For fiscal year 1954 we reviewed the policies, procedures, and accounting records of the Corps of Engineers district and divisional offices having responsibility for Arkansas, White, and Red River Basin projects. *The unresolved questions relating to cost allocations, depreciation, and interest on the Federal investment, however, makes it impracticable to show combined financial statements for the projects in the Arkansas, White, and Red River Basins at this time.*"

(Italic supplied.)

COST ALLOCATIONS—EXCERPTS FROM RECOMMENDATIONS BY GENERAL ACCOUNTING OFFICE

Excerpts are taken from audit reports to the Congress of the United States regarding the activities of the Southwestern Power Administration, an agency of the Department of the Interior for fiscal years 1952, 1953, and 1954.

Fiscal year ended June 30, 1952

Page 5: "*We recommend that the Congress designate specifically the agency to make the allocation of costs for projects either constructed or authorized for construction* by the Corps of Engineers in the Arkansas, Red and White River Basins The conflicting contentions of the Corps of Engineers and the Department of the Interior, *and the existing confusion on the responsibility for cost allocations can only be resolved through legislative action.* In the absence of a specific assignment of responsibility by law, both the Corps of Engineers and the Department of the Interior have made cost allocations and they have been unable to resolve their differences, which are fundamental in character. *Until definite allocations of the construction costs are made, it will not be possible to evaluate adequately the financial administration* of the projects in the Arkansas, Red, and White River Basins.

"Both the Corps of Engineers and the Department of the Interior base the claim for responsibility for the allocation of costs of multiple-purpose projects on the provisions in the basic legislation. The Corps of Engineers is responsible under the various acts for investigating, justifying, constructing, operating and maintaining the projects. *These projects must be operated and maintained for all the purposes served, and the corps makes available the surplus power for disposal by the marketing agency.* For these reasons the Corps of Engineers contends that it is their responsibility to make the cost allocations to all the purposes served, including power. The Department of the Interior contends that the establishment of power rates which will meet the requirements of section 5 of the Flood Control Act of 1944 necessarily implies the responsibility for allocation of construction costs to power and cannot be subject to allocations of costs by someone else."

Page 6: "* * * *Through the choice of a method of allocation and the number of years to amortize the amount allocated to power, a wide range of power rates can be justified.*"

Fiscal year ended June 30, 1953

Page 13: "*We recommend that the Congress designate specifically the agency to make the allocation of costs for projects* either constructed or authorized for construction by the Corps of Engineers in the Arkansas, White, and Red River Basins. The conflicting contentions of the Corps of Engineers and the Department of the Interior, and the *existing confusion on the responsibility for cost allocations, can only be resolved through legislative action.* * * *"

Pages 14 and 15: "Section 5 of the Flood Control Act of 1944 provides that the power rate schedules of the Department of the Interior shall take into consideration, in addition to the production and transmission costs, the amortization of the capital investment allocated to power over a reasonable period of years. The Corps of Engineers has made tentative cost allocations on nine projects in the Southwest that are either in operation or under construction. The Department of the Interior has made tentative cost allocations on eight of these projects. These computations for 8 projects show that the annual power charge as determined by the Corps of Engineers is about 36 percent higher than the amounts determined by the Department of the Interior. The differences arise principally because—

"1. The Corps of Engineers and the Department of the Interior have used different methods to allocate the construction costs for most of the projects. The corps method results in a higher allocation of costs to power.

"2. The Corps of Engineers and the Department of the Interior use different rates in computing interest.

"*Through the choice of a method of allocation and the interest rates used a wide range of power rates can be justified.*"

Fiscal year ended June 30, 1954

Page 2: "In previous years a jurisdictional dispute has existed between the Department of the Interior and the Corps of Engineers, Department of the Army, concerning the allocation of construction costs of multiple-purpose projects. We have been informed that general agreement on allocation of costs of multiple-purpose projects has been reached with the Corps of Engineers. *The procedures agreed upon, however, leave unresolved the basic problem of final responsibility for making allocations.* We believe that the basis for the differences that existed in the past which were fundamental in character *should be resolved with finality by clarifying legislation.*"

Page 10: "Although the *progress in reaching agreement on allocations* of costs acceptable to both the Department of the Interior and the Corps of Engineers *is commendable, it leaves unsettled the basic problem of final responsibility for making such allocations.* Accordingly, *we repeat our recommendation* contained in previous reports *that the Congress designate specifically the answer to make the allocation of construction costs* for projects either constructed or authorized for construction by the Corps of Engineers in the Arkansas, White, and Red River Basins."

(Italic supplied.)

I am advised that the most recent audit report is not yet printed and released but that it confirms and conforms to the previous reports.

The new wholesale rate schedule which has been placed in effect by the Southwestern Power Administration was further based or predicated upon a 50-year pay-out period, whereas, in the past a 100-year amortization period had been used. We are advised by the engineers that the average life of the dams built in Southwest area exceed 150 years and in some cases over 300 years. We, therefore, question the reason as to why the pay-out period should be reduced to 50 years when the life of the project is so much greater. Assuming that the cost allocated to power is paid out over a 50-year period, what then, will the Department of Interior do in regard to the sale of power since no further costs are to be amortized? We believe this is a matter that should be the responsibility of Congress and settled in accordance with their jurisdiction.

The REA co-ops have borrowed money from REA on a feasibility study which was predicated on an average rate in effect in the general area. Before the SPA rate increase some 30 percent of the co-ops were experiencing financial difficulties. This wholesale rate increase will cause additional co-ops to experience financial difficulties in the future. All of the REA co-ops have prided themselves on their past record of being able to operate at no cost to the taxpayers or Government and pay back their debts with interest. It is our sincere desire and wish to continue to pay our own way. If, however, we are continually faced with power increases such as the new SPA rate schedule, we will be unable to continue to serve the farmers of the rural area at a reasonable rate and maintain our pay-out status to the Government. The Southwest Power Administration being a yardstick for the wholesale rates established in the Southwest area, with the new rate increase, acts as a yardstick in reverse. If extended to Louisiana the 27½ percent rate raise (or roughly 7.1 mills per kilowatt-hour cost at 50 percent load factor) would increase the wholesale power costs of the 13 cooperatives in Louisiana approximately $393,000 per year. This amounts to 25 percent of the present revenue based on the annual statistical report put out by the Department of Agriculture for the rural electric borrowers for 1956. Using the 1956 statistical report of the Rural Electrification Administration the new rate will cost the cooperatives in the 6-State area approximately $5,431,000 increase per year which amounts to approximately 31 percent of the total revenue or income received by the cooperatives.

According to the 1956 operating statistics published by the Department of Agriculture, the following information is submitted for your study:

1956 statistics

	Number of members	Number of kilowatt-hours purchased	Cost of kilowatt-hours purchased	Estimated 1.5 mill increase	Percent power cost to revenue
Arkansas	129, 529	345, 569, 727	$1, 950, 136	$518, 354. 59	26
Kansas	92, 724	308, 333, 080	2, 971, 298	462, 499. 62	29
Louisiana	106, 832	262, 415, 907	1, 419, 356	393, 623. 86	25
Missouri	240, 187	847, 849, 234	7, 069, 023	1, 271, 773. 85	36
Oklahoma	133, 385	457, 447, 236	2, 819, 977	681, 670. 85	27
Texas	328, 901	1, 402, 131, 704	8, 711, 728	2, 103, 197. 56	33
Total	1, 031, 558	3, 623, 746, 888	24, 941, 518	5, 431, 120. 33	[1] 31

[1] Average.

The above figures are from the 1956 Annual Statistical Report of Rural Electrification Borrowers compiled by the United States Department of Agriculture.

The average cost of interest to the cooperatives, in proportion to their gross revenue is approximately 11 percent—some co-ops as low as 8 percent; the highest 16 percent. If this is added to the 31 percent for the cost of power we have a 42 percent figure of the gross revenue of the cooperatives in the Southwest area which will be spent for wholesale power and interest only. It is a most revealing fact to learn that 42¢ out of every $1 of revenue will have to be dedicated to wholesale power and interest costs only.

Extending the total costs per year of the wholesale power to the cooperatives in Louisiana over a 30-year period, the farmers and rural people of our State would pay approximately $73 million in additional power costs. We believe that this seriously jeopardizes the payout possibilities of the cooperatives who have increased investments in extended power facilities with the idea in mind of stabilized rates for the future. Retail rates are already high to our members so increased rates would only serve as a greater burden and retard progressive use of electicity. Therefore, Mr. Chairman, we respectfully ask this committee to help correct the confusion and inequities now existing by the various Government agencies attempting to take over authority of Congress in the formula and allocation methods now applied to the cost of power in the multipurpose projects in the Southwest area. We believe that this bill will be a great step in correcting and stabilizing this situation for the future. The Trimble bill will:

1. Place the authority for establishing the allocation of costs of multipurpose projects back into the hands of the Congress where these important matters should be established.
2. It will set the amortization period at 100 years.
3. It will eliminate any future manipulation of the costs after a dam is built.
4. It will greatly assist the economy of the whole Southwest area by establishing a yardstick which cannot be manipulated at the will of the agencies or departments.
5. It will make possible the feasibility of future development of multipurpose dams and conservation of water.

This very inadequate attempt to present the views of the 13 electric cooperatives in the State of Louisiana, we hope, will result in some action by the Congress to solve the responsibility of allocated costs for Federal hydro projects and to set a definite method by which a fair and equitable cost can be set and approved by the Congress itself. Please be assured there isn't one of us who wants the Federal Government to subsidize our power cost. However, we do ask that the matter of allocated costs be settled once and for all. It is impossible for us to continue to run our farmer businesses—paying back our obligation with interest—if our cost of power continues to increase. The history of the cost of power has been

a continual reduction for the last 50 years as the volume increased. The volume is increasing greater than we can meet the demands, yet cost of power seems to be jumping upward. Therefore, we request that the committee study and consider this problem and recommend to Congress a solution by adoption of the Trimble bill.

I thank all of you for this opportunity to tell you of this problem and how it affects us in Louisiana and the six-State area.

STATEMENT OF THE CIMARRON ELECTRIC COOPERATIVE, KINGFISHER, OKLA.

My name is R. C. Boecher and I am manager of the Cimarron Electric Cooperative, Kingfisher, Okla., whose membership is made up principally of farmers.

I am speaking in support of H. R. 7362, better known to us as the Trimble bill, as I understand its provisions which set up cost allocations for the many direct and indirect benefits from the building of multipurpose dams. These cost allocations must be decided by the Congress and must be authorized by the Congress under a formula to be used for that particular project at the time the appropriation is made.

I am heartily in favor of this kind of arrangement because, if this was done, contracts for the sale of power generated by Government multipurpose dams and distributed by Government agencies would become realistic and could be depended upon for a definite period of time, which is not true at the present time. To illustrate this point, back in 1950 a group of cooperatives in western Oklahoma banded themselves together under the name of Western Farmers Electric Cooperative, to build a generating and transmission cooperative, borrowing over $12 million from the Federal Government through a loan from the Rural Electrification Administration.

At that time, one of the underlying points of feasibility under which this loan was approved by the Administrator of the Rural Electrification Administration was the fact that the cooperatives, through their officers, had signed a contract with Southwestern Power Administration, an agency of the Federal Government which had the responsibility of selling the power from the multipurpose dams in this area. This interchange of power from Southwestern Power Administration to be purchased at a rate reasonable enough in price that Western Farmers Electric Cooperative could buy all excess at a price they could afford to pay. Now, this contract has been reviewed and the price has gone up to a point that it is becoming a burden on the backs of the farm people who are members of Western Farmers Electric Cooperative. The rate to this cooperative for wholesale power, due to this rate increase by SPA, has been raised approximately 27 percent due to the changing of the original contract.

May I point out to you gentlemen that this was not anticipated when the loan was made to the cooperative; in fact, the loan probably would never have been made if this could have ben foreseen. We, the people of this area, signed the contract in good faith, thinking we could depend upon the stipulated price for power from SPA, for the like of the contract. It is my understanding that under this Trimble bill, this situation could not have arisen.

Due to the drought, poor crops, rising labor, living and machinery costs, with decreased acreage allotments as well as lower prices for their products, our farmers of this area are in bad financial circumstances. I would venture to say that the conditions are getting even worse by the day and they cannot afford to pay rising costs of power due to rate increases; and due to these facts, the effect it will have on Cimarron Electric Cooperative is very simple. The farmers will curtail their consumption of kilowatt-hours, which in turn will jeopardize the Government's loan to our farmers as it will render unsound the feasibility under which the original loan for Western Electric Cooperative, our generating and transmission cooperative, was made.

The farm population of Oklahoma is rapidly decreasing, which is true in many other States. The facts are that in the 9 counties in which Cimarron Electric Cooperative operates, there are at this time 5,112 members on our electric lines as compared to 5,514 this month in 1952, a decrease of 402 members; and these members are now averaging only 251 kilowatts per member in comparison with 151 kilowatts which were used in 1952, which will not even offset the rising costs in maintenance of our facilities to say nothing of adding to our wholesale power costs.

The whole situation boils down to these two facts:

First, that there are thousands less people in Oklahoma, living on farms to use electricity, than there were 20 years ago, as Federal statistics will show; and with rising costs and less income to pay with, will reduce the sale of electric energy, making unsound the investment the Government already has in the electric cooperatives and putting all the loans from the Rural Electrification Administration in jeopardy in this area to the point that even the strongest of the individual cooperatives will be unable to survive.

And second, our people feel that they have been let down by the fact that power costs have been raised far above the price contracted for in the original agreement.

So, gentlemen, you can see the situation facing the farmers of western Oklahoma is not a bright one.

Therefore, we believe the Congress of the United States, when authorizing the construction of multipurpose dams, should decide at that time and make public the cost allocations, for power and other facilities that benefit from its construction.

And further, we also believe that the Congress should make this law retroactive to the multipurpose dams now in operation.

Gentlemen, I thank you.

STATEMENT OF D. G. McLELLAN, MANAGER OF RURAL ELECTRIC COOPERATIVE, INC., LINDSAY, OKLA.

Gentlemen of the committee, my name is D. G. McLellan, manager of Rural Electric Cooperative, Inc., an REA cooperative, at Lindsay, Okla.

Our cooperative serves 3,600 rural consumers in parts of 5 counties in Oklahoma. I have been delegated by our board of trustees to present this statement to the committee for the record.

We sincerely urge the committee to recommend H. R. 7362 for immediate passage, for several reasons.

1. The instability of cost allocations of multipurpose dams.
2. This bill if passed will place this responsibility in the hands of Congress.
3. Will provide a more realistic payout period for hydro facilities.
4. Will provide a more stable charge for all benefits derived from multipurpose dams, including power.
5. Will remove this cost allocations out of the hands of the bureaus, who have the power to change the cost allocations at any time.

The rate increase by the Department of the Interior, which increased the SPA rate 27 percent, as of August 1957, will cost our cooperative $30,000 the first year, based upon actual figures for the past 5 months. The cooperatives of Oklahoma are losing farm members at a rapid pace and will continue to do so if the farm situation does not change for the better. No one can deny what the REA program has done for the economy of our great country, so we urge our friends in Congress to help us keep the REA cooperatives on a sound economic basis, instead of killing us off, as some of those in the Administration would prefer to do.

Several of the cooperatives in our State have had to increase rates to their members in order to meet repayment of principal and interest to the Government. In face of the faltering farm economy and the present recession, we urge your support of H. R. 7362 and other legislation, which will help the electric cooperatives continue to do a great service to our country and keep us from falling into the hands of the utility monopoly.

STATEMENT OF CARL BOOHER, PRESIDENT, CENTRAL RURAL ELECTRIC COOPERATIVE, INC., STILLWATER, OKLA.

Mr. Chairman and members of the committee, at our regular board meeting held on March 18, 1958, our board of directors unanimously passed a resolution favoring the Trimble bill in its present form and urge your wholehearted support of this bill.

This cooperative, like many others in this section of the country, has been unable to earn 100 percent debt service since its inception. Three years ago we were forced to raise our retail rates approximately 15 percent to meet our obligation to the United States Federal Government.

Since that time we have been able to meet our payments to the Government; however, our renewal, reserve, and replacement funds are far below what they should be and we will have difficulty in future years meeting our debt require-

ments unless we either raise the rates to our consumers again or can get some relief through the stabilization of an SPA rate.

Our records indicate that the SPA rate increase has cost this cooperative $15,503.35 the first 12 months the rate was in effect. It is anticipated by our consulting engineer, Mr. C. H. Guernsey & Co., Oklahoma City, Okla., that over a 2-, 5-, and 10-year period the rate increase imposed by SPA will cost this cooperative $35,000, $100,000, and $250,000 respectively.

STATEMENT OF DON DAGE, MANAGER, COTTON ELECTRIC COOPERATIVE, WALTERS, OKLA.

Mr. Chairman and gentlemen of the committee, my name is Don Dage. I am manager of the Cotton Electric Cooperative, Walters, Okla. I am here as a representative of the 7,900 members and consumers of our cooperative, located in Cotton, Stephens, Comanche, Tillman, Jefferson, Caddo, Grady, and Carter Counties, Okla., to respectfully request your favorable consideration of H. R. 7362.

The farmers in our section of the country have been confronted with many serious problems during the past few years with respect to the price they are obliged to pay for goods and services as compared to the price they receive for the commodities they produce. As recently as August 1957 the wholesale price of electric power to our members was increased 27 percent by the Southwest Power Administration. This rate increase has resulted in an additional cost of $19,867.61 for electric service to our members during the period of August 1957 through February 1958 as itemized in the following schedule:

	Kilowatt-hours purchased	Cost under rate in effect prior to Aug. 9, 1957	Cost under new rate adopted by SPA, Aug. 9, 1957	Net increase
1957—August	2,646,497	$15,461.68	$17,512.59	$2,050.91
September	2,412,521	14,392.48	17,371.59	2,979.11
October	2,372,633	14,209.16	17,228.43	3,019.27
November	2,294,337	13,849.00	16,946.56	3,097.56
1958—December	2,549,245	15,021.58	17,864.24	2,842.66
January	2,662,162	15,580.38	18,374.56	2,794.18
February	2,372,421	14,247.56	17,331.48	3,083.92
Total	17,309,816	102,761.84	122,629.45	19,867.61

Based on the estimated power requirements for our members for the period of January 1, 1958, to January 1, 1968, the 27-percent increase which has already been put into effect by SPA will cost our members an additional $1,249,935 for their electric service during the next 10 years.

Under present cost allocation policies for hydroelectric projects, it appears inevitable that wholesale power rates must surely be increased again and again to cover the major portion of the investment in these projects for irrigation, soil conservation, flood control, recreation, and other related benefits. This can only result in working a further hardship on power consumers by pricing hydroelectric power out of the market.

These are the reasons we are here to plead for adoption of House bill 7362. We are firmly convinced that a fair and equitable allocation of costs to hydroelectric projects cannot be expected until the authority to make these cost allocations is returned to the Congress of the United States.

Thank you, gentlemen, for your patience and consideration.

STATEMENT OF THE HARMON ELECTRIC ASSOCIATION, INC., OF HOLLIS, OKLA.

Mr. Chairman and members of the committee, I am H. G. Templeton, manager of the Harmon Electric Association, Inc., an REA financed cooperative in Hollis, Okla. I am here in support of House bill 7362 and urge its adoption as soon as possible. I believe this legislation is needed for the survival of one of the most successful and economic programs ever initiated by our Federal

Government; successful because it has relieved the drudgery from the farm and put upward to $50 million over and above the expense involved into our Federal Treasury. Economically the program has had a tremendous effect, by providing more jobs, increasing taxable income, and taxable wealth. It is estimated that for each dollar loaned by REA, the consumer spends an additional $4 for other equipment; also, the dollar is estimated to change hands 7 times between consumer and manufacturer. Assuming that these are close estimates, then business along the line has increased many times, which involves retail merchants through to the makers of transformers, meters, wire, and other items which go into line construction as well as makers of refrigerators, electric ranges, radios, televisions, etc.

Gentlemen, is this great beneficial program to be sacrificed or will it continue aiding in the building of a greater and stronger nation? This bill you now have under consideration, I believe, will be the means of the program's continuance because—

1. It is fair to all concerned.
2. It places cost allocations in the hands of Congress.
3. It provides pay-out periods of hydro facilities in accordance with expected life.
4. It provides realistic charges for all benefits derived from multipurpose dams, including electric power.

which all adds up to placing power cost at a reasonable figure, at a rate which we can survive.

I believe the Harmon Electric Association, Inc. has been able to maintain feasibility for the past 18½ years because of its low retail rate, causing kilowatt-hour consumption to double and triple. In face of declining farm prices, higher equipment, and operating cost, to raise retail rates now to meet the August 9, 1957, $35,000 per year wholesale power rate increase, I fear would cause kilowatt-hour usage to become less and less, thereby, forcing us into bankruptcy.

STATEMENT OF WILLIAM T. CRISP, EXECUTIVE MANAGER AND GENERAL COUNSEL OF TARHEEL ELECTRIC MEMBERSHIP ASSOCIATION, RALEIGH, N. C.

Mr. Chairman, members of the committee, my name is William T. Crisp. I am the executive manager and general counsel of Tarheel Electric Membership Association, Inc. Tarheel Electric is the trade-service organization representing all 32 of North Carolina's rural electric cooperatives. These cooperatives serve a total of 180,000 member-owners, representing some 800,000 men, women, and children in the State of North Carolina.

I appear before this committee not merely as a member of the National Water Resources committee, nor merely in support of the immediate measure, H. R. 7632. My association has officially approved this measure and authorized my appearance on its behalf. But in addition, my association for many years has pursued basic policies on the subject of land and water resource development which are wholly consonant with the specific policies contemplated by Mr. Trimble's bill.

I shall not address myself to the specific merits of this bill. I am not qualified to do so. Rather, permit me briefly to summarize the basic reasons we think this is a good bill, a bill which you should approve and recommend to the whole House.

Currently we are hearing the quite valid warning that Russia is outstripping us in the field of resources development. This is an ominous warning. It portends our loss of far more than the immediate benefits which our undeveloped resources could provide; it portends far more, even, than our implied potential loss of superiority on the multiple fronts of technology. Far more importantly, it signifies our loss of those perspectives, those standards of social values, those concepts of public policy and public necessity without which no frontier has ever been entered, much less harnessed for the use of man.

I shall not bore this committee with a recital of the multiplicitous, often-cited factors which may or may not be contributing to this discouraging picture. The Trimble bill cannot, in any event, cure or adequately substitute for all of them. Rather, I wish to emphasize just one very important factor which is preventing altogether, unnecessarily slowing down, or frustrating the full realization of all potential benefits from, the development of our water resources in the United States.

This factor, gentlemen, consists in the fact that after, lo, over half a century of Federal legislation, regulation, and administration in this field, we are still bedeviled by policies which lack the three fundamental C's: Coherence, cohesiveness, and comprehensiveness.

This may sound like just a clever word combination coined by one of our currently-popular Madison Avenue thought molders. It is not.

Our policy on estimated benefits in multiple-resource developments is a teaming jungle of not only contradictory formulas but of inconsistent methods of applying the same formulas.

Our policy on cost allocations is the same.

Our policy on who shall—indeed, on whether anyone continuously shall—have the responsibility of studying, of evaluating, of recommending, and of administering proposed project developments is the same.

The detrimental effects of this schizophrenic approach to resources development have long been painfully and expensively apparent.

The lack of coherence in congressional authorizations of river basin developments, such as was the case in respect to the Roanoke River, has robbed both our policy of its meaning and the public of its just deserts. The Roanoke River controversy stands as a colossal monument to that statement: By a split decision, the United States Supreme Court, ruling on the mere turn of a phrase in a congressional enactment, permitted the Federal Power Commission to award what Mr. Justice Douglas called the plum of the proposed development to Virginia Electric & Power Co.

It is impossible to estimate the loss of benefits to the public at large which lack of coherence caused in this case. This I know: That whereas the rural electric and municipal systems of Virginia and eastern North Carolina are today drawing the benefits of only a pittance of the power originally contemplated for Federal development in that area, the Virginia Electric & Power Co. is reaping the manifold benefits of a publicly produced and publicly paid-for dam site. The public, incidentally, is paying in two ways: It lost the power output; it also lost the immensely greater value which that power would have had in mitigating the prices and policies of a giant profit monopoly.

The Roanoke Rapids fiasco is also a monument to what happens when we lack cohesion in our policies respecting water resource development. You will recall that then Secretary of the Interior Oscar Chapman fought valiantly for the preservation of Roanoke Rapids for Federal development. He was opposed—most adamantly and most prejudicially, in my opinion—by none other than the Federal Power Commission itself. This was neither the first nor the last instance of two or more Federal agencies locking in combat through the exercise of separately held but interrelated jurisdictions. The status of Hells Canyon today represents the most notorious and costly example of interagency fratricide in our conservation history. Similarly, Dixon-Yates 2 years ago. And similarly in the future for every project that is even impliedly controversial.

These examples could be supplemented with many, many others. They all add up, not merely to confusion, to delay, to loss of benefits, to fiercely destructive conflicts; but aslo to the singular fact that America, today, is retrogressing in the development of her resources; that America today too often must merely watch and wait and wail while private interest defeats the public purpose and selfishly and wastefully exploits for itself the public domain.

The Congress of the United States, I know, will not—because it simply cannot—legislate policies in this field to which all the segmented interests of the Nation will enthusiastically subscribe, policies that are devoid of arbitrary criteria, that are patently acceptable to all of the now-involved Government agencies and instrumentalities.

If the Trimble bill even pretended to accomplish those objectives, you should throw it out the window. It won't.

But it will provide an anchor around which to begin the reharmonizing of public policies long since gone their separate ways.

It may not satisfy everybody's idea of what our essential social objectives ought to be in this field (it would be a thoroughly innocuous bill if it did), but it does contain what, after taking inventory of our thinking for over 50 years, is as clear a statement of those objectives as we can probably arrive at.

The incremental cost method prescribed in it will certainly run counter to the thinking of many interests, but it is one defensible—and in our opinion, the best—method which can be employed and around which many interests can rally.

The proposed standard for justifying a potential project may defy the sympathies of the false economists—and certainly those of the utility companies—but it makes a lot of sense, considering many of the patterns pursued in the past.

Integrated river-basin planning will definitely be opposed by those who appreciate the tactic of divide and conquer, but it is the only possible policy that permits immediate action in a given area at a given time, consistently with wise action in a comprehensive area at a future time.

Permit me to conclude with this observation:

A proposal today to undertake any development of public resources in America inevitably incurs the most heated, the most adamant, and in some cases the most invidious opposition which can be counterpoised against any public measure. Neither Congress—assuming the impossible, that it should magically become possessed of a singular mind on the question—nor the public at large can ever hope to eliminate the fundamental reasons for this opposition. The reasons stem from the very root bed of a dynamic, competitive culture.

But Congress can—and I opionate that the public at large, if fully conversant with all the relevant facts, would insist that Congress must—reconstitute itself as both the first and final arbiter of policy in this field, reinforce its too-often too-meager information sources for decision making, and create a far more coherent, cohesive, and comprehensive foundation for action than now exists.

The alternative to this is not merely to compound chaos with chaos. It is to finally and, in my opinion, insanely forfeit control of America's natural wealth and by so doing rob her people, present and future, of their natural heritage. Nor is it altogether unrealistic to conjecture that she may be robbed, literally, of her chances to survive in an antagonistic world.

For these reasons, if none other, gentlemen, the Trimble bill makes sense.

STATEMENT OF JULIUS HELM, GENERAL MANAGER, MISSOURI STATE RURAL ELECTRIFICATION ASSOCIATION, JEFFERSON CITY, MO.

Mr. Chairman and members of the committee, my name is Julius Helm. I am general manager of the Missouri State Rural Electrification Association, which is an organization comprising 41 REA-financed distribution cooperatives and 6 generation and transmission cooperatives, serving approximately 245,000 rural consumers.

At the outset, Mr. Chairman, I should like to mention that to my knowledge there has never been a bill before the Congress that has been so thoroughly discussed and completely understood by all of the rural electric co-op officials in my State as has H. R. 7362, which we commonly refer to as the Trimble bill. Possibly with these two exceptions (1) "rumored legislation" that would force the REA cooperatives into the open money market for their financing, which incidentally would sound the death knell of the rural electrification program, and (2) the 40-percent increase in wholesale power rates proposed by the Department of the Interior a couple of years ago, it is doubtful if there has ever been any legislative issue involving REA that has created a greater concern and more genuine unanimity of thinking among the rural electric officials in Missouri than has H. R. 7362. We are firmly convinced that unless Congress passes legislation to correct existing methods of determining cost allocations to power in the multipurpose dams the rural electric cooperatives in Missouri, either wittingly or unwittingly, are going to be priced out of the Federal power market and will find themselves at the complete mercy of the private utility companies, and will be equally if not worse off from a wholesale power viewpoint than they were in the early days of the program.

As the REA Administrator and the Administrator of SPA could very well verify, the rural electric cooperatives in Missouri have a great stake in the hydroelectric plants in the multiple-purpose projects located in Arkansas, Missouri, Oklahoma, and Texas. A large percentage of the electric power from these projects is marketed in our area by the Southwestern Power Administration. Two of our largest generation and transmission cooperatives, Northwest Electric Power Cooperative and Central Electric Power Cooperative, have invested approximately $10 million in heavy transmission lines extending down to the Bull Shoals project in Arkansas to move this power into Missouri. Our generation and transmission cooperatives have spent many millions of dollars on steam-generating plants to supplement this hydro power and have entered into

long-term contracts with SPA. Furthermore, Mr. Chairman, our cooperatives, now and for years ahead, have been looking to SPA for a major part of their power supply. Because of the comparatively high fuel costs in our State we must depend upon low-cost hydro power to bring the average cost of power down to the level our people can afford to pay.

Generally speaking, our experience with SPA has been exceptionally favorable and we have not encountered too much difficulty in keeping the average cost of power low until the formula for making cost allocations was changed by someone in Washington. Under the old cost allocation formula SPA adopted a rate which we thought was fair and realistic. Moreover, we were told by SPA officials that the rate was sufficiently high to pay back the Government its investment, including interest, and that there would be no subsidy. The rural electric cooperatives were happy and for a number of years everything seemed to be going along fine until suddenly word was received that the rules had been changed by someone in Washington which was going to increase the cost of hydro power and that there was no alternative but to increase the rates to the REA cooperatives. This came as quite a shock to the rural elecrtic leaders and farmers throughout the entire Southwest area and as a result of their objections, plus the arbitrary and unfair methods that were used in establishing these increased costs. Congress passed a bill stopping the increase for a period of 18 months. Disappointingly, however, the bill was vetoed by the President.

Within the last 2 years, Mr. Chairman, the rates in the Southwest have been raised about 28 percent. Under the original cost formula the cooperatives paid 5.6 mills per kilowatt-hour but now are paying about 7 mills under the new formula. There is every reason to believe that more rate increases are yet to come as soon as we recover from the shock of the last raise.

Two questions our people are continuously asking themselves, Mr. Chairman, are these: (1) will there be no end to these rate increases? and (2) how can we enter into long-term contracts for this power if every new budget director is going to change the rules on us and thereby raise the cost of power to our rural consumers? I feel certain any businessman would agree that it is a near impossibility for the cooperatives to do any long-range planning when the cost allocations keep shifting from year to year.

Mr. Chairman, there is another aspect of this problem that is quite disturbing to the rural electric leaders of my State. We understand that more new rules of cost allocations have been adopted such as "taxes forgone" which will raise still higher the costs to be borne by power. What this is doing we are afraid, Mr. Chairman, is that it will prevent the development of practically all the rest of the hydroelectric plants. If or information is correct, projects that heretofore were feasible and would produce low-cost power are either infeasible or the price will be 10 mills per kilowatt-hour or more.

We understand there are four projects now under construction with power authorized; namely, Dardanelle, Greers Ferry, Eufala, and McGee Bend. Under the new rules we fear that the power will be so high that the cooperatives won't be able to buy it. If our information is correct the power in Keystone is deferred because it will cost too much as it is presently figured under the new rules.

Mr. Chairman, it has been the hope of rural electric leaders in Missouri that in future years the rural consumers of our State and the entire Southwest area would get low-cost power from all the following projects: Beaver, Oologah, Short Mountain, Webber Falls, Ozark, DeGray, and Wolf Bayou. But we fear that unless Congress intervenes through passage of legislation setting up a definite criteria or formula to guide the various agencies in determining the benefits-to-cost ratio that power can't possibly be included in many, if any, of these projects.

Mr. Chairman, we believe the passage of H. R. 7362 will correct this situation. To our knowledge it is the only proposed or contemplated legislation that will remedy a serious and unfavorable situation that is growing worse year by year. We urge you and your committee to report this bill favorably and urge its adoption.

Mr. ASPINALL. Without objection, there will be placed in the record at this point a resolution adopted by the Missouri Association of Municipal Utilities in support of H. R. 7362.

(The resolution follows:)

RESOLUTION

Whereas the Missouri Association of Municipal Utilities is a nonprofit organization formed in the State of Missouri for the sole and specific purpose of developing ways and means to improve, expand, and distribute essential electric service to tens of thousands of families, and

Whereas the members of Missouri Association of Municipal Utilities are disturbed over the present inequities apparent in the method, or lack of method, in the allocation of costs and benefits of Federal multipurpose dam projects, and

Whereas the members of the Missouri Association of Municipal Utilities recognize that H. R. 7362, better known as the Trimble bill, does propose a fair, proper, and sound means of allocating costs and benefits of Federal multipurpose dam projects which will reassert the control of the Congress over national water resources and accelerate the conservation and development thereof, and

Whereas the members of the Missouri Association of Municipal Utilities have reviewed, studied and discussed the present ineffective and inequitable allocation of costs of benefits of Federal multipurpose dam projects: Now, therefore be it

Resolved, That the Missouri Association of Municipal Utilities, meeting in business session March 24, 1958, in the interest of public welfare and fair treatment to the agencies concerned with public welfare, do hereby approve and endorse H. R. 7362, better known as the Trimble bill, and do unanimously urge its passage.

MISSOURI ASSOCIATION OF MUNICIPAL UTILITIES,
H. D. MILLER, *President*.
WENDELL E. LOCKE, *Secretary*.

Mr. ASPINALL. I wish to thank my colleagues for appearing this afternoon and being with us as long as you have. The bill more than likely will be before the subcommittee again at a later date.

The Chair wishes to thank the members who have appeared here. We are sorry our time did not permit us to hear all of you.

We especially wish to thank former Governor McMath, of Arkansas, for doing a lot of the legwork which is always required in these presentations.

The committee stands adjourned.

(Whereupon, at 3:55 p. m., the subcommittee adjourned.)

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WATER RESOURCES DEVELOPMENT CRITERIA

THURSDAY, MAY 29, 1958

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON IRRIGATION AND RECLAMATION,
OF THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, D. C.

The subcommittee met at 10 a. m., in room 1324, Old House Office Building, Washington, D. C., Hon. Wayne N. Aspinall (chairman of the subcommittee) presiding.

Mr. ASPINALL. The Subcommittee on Irrigation and Reclamation of the House Committee on Interior and Insular Affairs will now be in session for the taking of further testimony on H. R. 7362, a bill by Mr. Trimble, of Arkansas.

To bring us up to date, the Department of the Interior reports unfavorably. The Army recommends the bill be amended by deleting from it all of the language which would become section 14 of Public Law 398, and by making such other changes as may be necessary to make it clear that the bill would apply only to projects constructed under authority of the act of August 11, 1939, and other projects under the jurisdiction of the Secretary of the Interior.

Previous to this meeting hearings were held March 27 and 28 of this year at which time Gen. John L. Person and Mr. John B. Bennett representing their Departments, Defense and Interior, Messrs. Clyde Ellis and Charles Robinson representing the REA were heard at that time and also 16 local witnesses from the areas involved were heard.

Mr. MILLER. Mr. John B. Bennett representing the Department, is that the Department of the Interior?

Mr. ASPINALL. Yes.

Mr. MILLER. Gen. John L. Person——

Mr. ASPINALL. Department of Defense.

Mr. MILLER. Was their testimony favorable or unfavorable?

Mr. ASPINALL. The testimony of Mr. Bennett was unfavorable. The testimony of General Persons was favorable only if the bill was amended. I think it can be largely said to be unfavorable.

Mr. MCFARLAND. General Persons stated as long as the Army was completely removed from the bill they would have no objection. They recommended that language relating to the Corps of Engineers be completely deleted from the bill.

Mr. MILLER. Another parliamentary inquiry. It occurs to me Army recommends elimination of section 14 of Public Law 398 which is really the important part of the bill, is it not?

Mr. ASPINALL. As far as the Army is concerned, it is.

Today our first witness is Mr. Frank M. Wilkes, chairman of the board, Southwestern Gas & Electric Co., with headquarters in Shreveport, La. Mr. Wilkes is appearing in opposition to the bill. He has a statement which he wishes to read and an addendum which he wishes to have placed in the record following his statement.

Do I understand you will also testify to this appendix that you have or will your statement include matters in the appendix?

Mr. WILKES. My idea of having the appendix is so that the members of the committee can have the advantage of the statement I make in that appendix. I do not want to use up all your time by running through those charts but if the committee so desires, I will be glad to do it.

Mr. ASPINALL. Unless there is objection, the appendix will be printed in the record at the end of Mr. Wilkes' statement.

Mr. MILLER. May I ask if Mr. Wilkes has larger charts of any kind that might illustrate the charts he has in his appendix?

Mr. WILKES. If the committee desires, I have the larger charts here.

Mr. MILLER. We might like to ask questions on material appearing in the appendix if the larger charts can be made available. We will probably not need it until we get through with the other.

Mr. ASPINALL. Is there any objection? Hearing no objection, the appendix will be printed with the exception, of course, of those matters which are in color because we cannot reproduce the color, but the chart itself will be printed.

You may proceed, Mr. Wilkes.

STATEMENT OF FRANK M. WILKES, CHAIRMAN, BOARD OF SOUTHWESTERN GAS & ELECTRIC CO., ACCOMPANIED BY RICHARD L. ARNOLD, CHIEF COUNSEL, SOUTHWESTERN GAS & ELECTRIC CO.

Mr. WILKES. My name is Frank M. Wilkes. I reside in Shreveport, La. I am chairman of the board of Southwestern Gas & Electric Co., which company supplies electric utility service in the northeastern corner of Texas, northwestern corner of Louisiana, and the western tier of counties in Arkansas, from the Louisiana State line to the Missouri State line, with exception of Fort Smith and its environs. I am 68 years old. I have spent the past 50 years, since graduating from the University of Kentucky in 1908, in the electric-utility industry. The period from 1919, when I was released from military service as an officer of the United States Army, has been spent in active top executive capacities with electric utilities in Arkansas and Louisiana.

I am making my appearance today in connection with H. R. 7362 by Hon. James W. Trimble, of Arkansas.

We are opposed to the provisions of this bill, for the reason, they are unclear and ambiguous and could prevent any development of our rivers, or could be used to give preferential development in one area over another.

Electric power and energy can be produced, at the present time, more cheaply for service to normal loads by thermal generation by either coal, gas, or oil, than it can be produced in most hydro installations. On the other hand, irrigation, navigation, and flood control cannot be cared for in any other manner except by the construction of ade-

quate works for their development. For this reason, the installing of electric power in multiple-purpose dams should be undertaken only where the sale of the resultant incidental power and energy can be made into the electric loads of the area at rates which will help in paying the costs of other features of the multiple purpose projects. If sold on this basis, the American taxpayers can be relieved of quite a bit of the cost of providing greatly needed irrigation, greatly needed flood control, and greatly desirable navigation.

When the Flood Control Act of 1944, which is at the present time the governing law for the production and sale of electric power from multiple-purpose projects, was being considered very voluminous and extensive hearings were held on it. All interested parties were given ample opportunity to be heard. The committee had this to say when reporting the bill out for action:

> The committee has heard testimony from the Secretary of the Interior and from the Director of the Division of Power of the Department of the Interior on this subject. The latter official has informed the committee that the provisions of amendment No. 6 contain sufficient authority and latitude for efficient administration and will satisfactorily enable the Department of the Interior to carry out the intent of the amendment. The committee desires an amendment which provides a convenient and practical method of disposing of power at projects under the control of the War Department without setting up a Public Power Trust which would be unduly competitive with established private power utilities.

The amendment asked for by the committee became section 5 of the Flood Control Act of December 22, 1944, which reads as follows:

> Electric power and energy generated at reservoir projects under the control of the War Department and in the opinion of the Secretary of War not required in the operation of such projects shall be delivered to the Secretary of the Interior, who shall transmit and dispose of such power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles, the rate schedules to become effective upon confirmation and approval by the Federal Power Commission. Rate schedules shall be drawn having regard to the recovery (upon the basis of the application of such rate schedules to the capacity of the electric facilities of the projects) of the cost of producing and transmitting such electric energy, including the amortization of the capital investment allocated to power over a reasonable period of years. Preference in the sale of such power and energy shall be given to public bodies and cooperatives. The Secretary of the Interior is authorized, from funds to be appropriated by the Congress, to construct or acquire, by purchase or other agreement, only such transmission lines and related facilities as may be necessary in order to make the power and energy generated at said projects available in wholesale quantities for sale on fair and reasonable terms and conditions to facilities owned by the Federal Government, public bodies, cooperatives, and privately owned companies. All moneys received from such sales shall be deposited in the Treasury of the United States as miscellaneous receipts.

Contrasted with this very definite regulation, I would like to discuss briefly, for the benefit of the committee, our viewpoints as to certain provisions of H. R. 7362.

Section 13 (a) (3): The measure of the cost of facilities devoted to power production is set up by rather ambiguous wording. Does this subsection 13 (a) (3) mean that the cost of construction of a project to provide flood control, irrigation storage, or navigation alone lettered (A) be the first item of the equation, and that section (B), the second item, would be the cost of constructing the much higher dam which would include a section for the production of electric power while providing for the same flood control, irrigation, or navigation

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benefits that would have been obtained by the lower dam? I know you gentlemen realize a flood control or irrigation or navigation dam is the cheapest form of dam that can be built. It makes use of the entire area of the reservoir and does not have to be built to a high height to give you the flood control and irrigation storage and the navigation storage that is necessary. If you put power into a dam at the same location, the first thing is at the base of the dam you have a large dead storage so as to get enough altitude on the dam to get some pressure on your wheels to make electricity with.

Then you have to put on top of that the other benefits so that the dam with power in it is sometimes from 3 to as much as 5 or 6 times as expensive as the flood-control dam would be. If this is the meaning of this section, then, I think, that not only the private power companies of the area, but the reclamation interests, the navigation interests, and the flood-control interests, would all be satisfied, since there would be no additional burden placed on the area, or the American taxpayer by this arrangement. By the proper sale of power and energy of the power facilities of such a dam as peaking power and peaking energy, the cost of the entire project would be reduced and the possibility of building many, many more similar projects would be enhanced.

If, however, this clause in section 13 (a) (3) means that under (A) a dam would be constructed of the size to provide desired flood control, navigation, and irrigation, plus the height and the breadth and the depth necessary to provide a head for the proposed installation of electric energy and that (B) would include all the cost of (A) plus only the bare costs of the generators and substation equipment, then this section would do irreparable damage to the American taxpayer in producing electric power at a fictitious cost which would be unduly competitive with private electric utilities now operating in the area. Certainly this paragraph should be spelled out so that there would be no ambiguity in what it means.

Section 13 (b) (3): This section is even more unclear and ambiguous than section 13 (a) (3). In section 13 (b) (3) the first method of arriving at benefits certainly will give the greatest benefits which can be claimed by the advocates of multiple-purpose project development as it allocates to development of electric power and energy from a multiple-purpose dam, the full cost of developing a similar quantity of power and a similar quantity of energy from the best alternative source which could be constructed at the same time as the dam would be built and would deliver its output to the load centers which might be available to it. That is, the present way the Army engineers in making reports to Congress handle it. The electrical benefits are taken as what it would cost to produce a similar quantity of a similar kind of electricity by the best means readily available.

Note that capital (A) would take into consideration all cost of production of power and energy from alternative source, including the cost to private industry of its taxes and the cost to private industry of its capital at going rates of money markets at the time of the investigation. At the present time 4 percent is used for arriving at benefits but this bill would make that benefit go up to 8 percent probably because that is what our money would cost us.

There can be no criticism on the part of the taxpayers on this determination as if these benefits are claimed and are obtained by the project on a better than 1:1 basis, the taxpayers would be relieved of a portion of the costs of the reclamation, irrigation, navigation, and flood control features of the project, and would not be penalized in any manner whatsoever by the addition of electric power in the project.

If, however, the determination is made on the alternative basis of section 13 (b) (3), and the benefits are figured on what some customer or customers in the area, for example, cooperatives, public bodies, or large industries, say they can afford to pay for the power and energy then this is highly ambiguous and would simply mean turning over all the power and energy from multiple purpose projects at a foolishly determined rate. If you are going to determine rates for electricity at what the consumer says he can afford to pay, there is no telling how low the price of that power would be.

In the hearings held on this bill on March 27 and 28, 1958, an outstanding example of what I mean in this statement was brought out: A great crowd of representatives of rural electric cooperatives, especially statewide officers and advocates of generating and transmission cooperatives, appeared one after the other before this committee over a period of several hours belaboring the necessity of cheaper power and energy for these preferred customers to prevent increases in their rates to their consumers or bankruptcy.

It is not necessary for this committee to consider only the statements which were made before it by these witnesses. Every year an annual statistical report (United States Department of Agriculture, Rural Electrification Administration), gives in detail the operating and financial statement of each individual cooperative borrowing money from the Rural Electrification Administration in Washington for the preceding year. The last such report available is for the year ending December 31, 1956. From this report I have abstracted the items applicable to all rural electric cooperatives in the States of Arkansas, Louisiana, Missouri, Oklahoma, and Texas. Copy of this tabulation is attached to my statement marked "Exhibit A." Certainly these cooperatives are not in the desperate financial condition which was implied by the repetitive testimony of the witnesses in the hearings of March 27 and 28. If you gentlemen will turn to exhibit A at the back of the report, I have listed here from this book the statistics for all of the cooperatives in the five States I mentioned. There are 18 in Arkansas, 14 in Louisiana, 41 in Missouri, 26 in Oklahoma, and 77 in Texas.

In 1956, the second group of figures there, those cooperatives sold $86,072,210 worth of electricity. Their total expenses were $63,343,773 and the cost of purchased power, which was purchased almost entirely from the private companies in the area, was only $21,970,000. They paid taxes of $1,806,000. They paid interest to the Federal Government at a 2-percent basis of $9,152,847. During the time the rural electrification movement has been going on they have paid back to the Federal Government the principal advanced by the Government which has become due, they have paid back $88,220,400. They have paid advance payments of $20,305,207. Every one of the States participated in those advance payments.

They have a reserve for depreciation and amortization at the present time of $120,065,308. You will notice in their bookkeeping they have two charges, one is the depreciation charge and the other an amortization charge. We in private business do not have an amortization charge. We do set up a depreciation charge.

The net margin of these cooperatives for the year 1956 was $14,796,425, which if you contrast it with the price of power, you will see that is better than three-fourths of the entire cost of power; so that they can certainly stand any small increase in their electric rates without the bankruptcy which was so alarming here on March 28.

Mr. ASPINALL. I have a question in mind. Does the gross revenue shown on that chart include all revenue that was received by those REA's during the period mentioned?

Mr. WILKES. Yes, sir; during that year. This was all their gross revenue.

Mr. ASPINALL. My next question, maybe it is because I am not able to see clearly: How do you arrive at these other figures which total more than the total revenue received?

Mr. WILKES. I am sorry, I should have made that more clear. You will notice at the top of the columns I have used reference figures. On principal due and paid, that is cumulative. Advance payments is also cumulative. The reserve for depreciation and amortization is also cumulative. The last column, net profit from the operation, that is for the 1 year.

Does that clear up your question?

Mr. ASPINALL. Not quite. Gross revenue for 1956 was $86,072,210.

Mr. WILKES. Yes, sir.

Mr. ASPINALL. Expenses for the same year were $63 million and cost of power purchased was $21 million, which would be $84 million.

Mr. WILKES. The $21 million is in the $63 million. The first column there is complete expenses and then I have itemized some of the items. The $63 million represents the entire cost to the cooperatives, including cost of purchased power, taxes, interest, and the difference between them is the net margin.

Mr. ASPINALL. $63 million plus and $14 million plus, which is net margin opposed to profit, only comes to $77 million.

Mr. WILKES. The other would go in your advance-payment column, made from prior years probably and some from that year.

Mr. ASPINALL. All right.

Mr. WILKES. Going back to page 7 of my prepared statement, section 13 (b) (3) (B) is also ambiguous as to just what source of alternative power would be considered. Also this section (B) would render it so that even if Federal power was already available, it could not be considered. The only way to cure this section 13 (b) (3) would be by striking out on page 4, line 7, the words "whichever is the lower, (A)", and beginning on line 15 at the word "or (B) * * *" and strike out the remainder of this subsection. As it is there is no telling what that price might be. If the customer says he has to have

it at a lower price that throws the burden back on the taxpayer and makes it harder to get irrigation, reclamation and flood control which are the real things necessary. This would leave the yardstick for recommendation of future projects for construction as the cost of producing a like character of electric power and energy by the best alternative method available. This is the present law and practice. The present law on these projects is they have to be amortized over a reasonable period of years after paying all other expenses, including interest.

(At this point in his statement Mr. Wilkes collapsed.)

Mr. ASPINALL (after some delay). Unless there is objection, the statement of Mr. Wilkes, together with the appendix, will be printed in the record in this proceeding. Hearing no objection, it is so ordered. Let the record show that the witness, Mr. Wilkes expired while giving his statement before this committee.

(The balance of Mr. Wilkes' statement, together with the appendix, follows:)

In section 13 (c) (1), line 6, page 5 of the bill, the word "depreciation" should be stricken out, and the word "amortization" placed in its stead. Also, line 13 of the same section, the use of the words "a period of 100 years" should receive close scrutiny.

Section 13 (c) (2) beginning with line 10, page 6 of the bill, here again this provision is worse than ambiguous. To make any definite rates which would be applicable prior to transmission by the Secretary of the Interior of the "costs to be allocated to each of the purposes," this paragraph should read: "Until such report has been transmitted to the Congress, rates charged for electric power from the features or facilities constructed or modified shall be an amount sufficient to recover annually 5 percent of the Federal investment in the powerhouse and substation, and in generating and other power equipment in operation."

You will note that I have suggested the change on line 12 by striking out the words "not exceed," and substituting the word "be," whereupon the clause from line 10 through 15 has become meaningful and definite.

As written in the original draft of the bill, rates could be made to recover 2 percent, 1 percent, no percent, minus 5 percent, or any other figure so long as it was less than 5 percent of the investment.

It is urged that this H. R. 7362 is not necessary and that provisions of section 5 of the Flood Control Act of 1944 already cover all necessary phases of the multiple purpose project problems. It should only be necessary for Congress to require the administrative branch of the Government to adhere to the principles of that section: to sell the kind of power; i. e., peaking power and peaking energy which is available in these dams at rates to be set as low as possible "consistent with sound business principles" to cover all operating costs, including amortization over a reasonable period of years; i. e., 50 years, and interest, and giving protection to preference of public bodies and cooperatives. Cooperatives and public bodies in the Southwest can receive service through this route at rates at least as low or lower than the national average for all suppliers.

In the Southwest contracts are now in force which provide for an exchange of peaking power and peaking energy with various suppliers of commercial power and energy and the delivery of commercial power and energy to the cooperatives served under such contracts on a basis which has kept the cooperatives in sound financial condition.

We believe a continuance of the present operation under section 5 of the Flood Control Act of 1944 will result in a continued benefit to preferred customers of the area, and, at the same time, will protect private electric utility industry in the area from the formation of a Public Power Trust which would be unduly competitive with it.

EXHIBIT A.—*5-State area comparison, rural electric cooperatives, year 1955 with year 1956*

State	Number of cooperatives	Gross revenue [1]	Expenses [1]	Cost of purchased power [1]	Taxes paid [1]	Interest [1]	Principal due and paid [2]	Advance payments [2]	Reserve depreciation and amortization [2]	Net margin [1]
1955										
Arkansas	18	$8,960,583	$7,023,912	$1,774,506	$506,615	$1,107,117	$8,098,263	$1,505,653	$11,661,631	$924,729
Louisiana	14	6,601,191	4,707,996	1,180,424	54,170	601,416	5,774,656	2,457,478	7,204,871	1,355,255
Missouri	41	23,282,312	18,605,031	8,305,979	508,925	2,589,160	18,124,035	3,214,475	30,510,898	2,301,082
Oklahoma	26	11,568,821	9,028,672	2,532,347	288,759	1,616,187	9,414,213	2,583,108	18,162,299	1,086,528
Texas	77	29,524,980	20,824,797	7,181,841	454,891	3,103,391	30,636,366	6,648,480	40,637,774	5,985,933
Total		79,937,887	60,190,408	20,975,097	1,813,360	9,017,271	72,047,533	16,409,194	108,177,473	11,653,527
1956										
Arkansas	18	9,642,191	7,549,884	1,950,136	556,259	1,143,349	10,184,060	1,884,683	13,324,945	1,086,266
Louisiana	14	7,450,840	5,270,340	1,419,356	62,798	632,094	7,523,482	2,780,055	8,079,914	1,641,621
Missouri	41	22,495,242	17,350,497	7,069,023	373,002	2,484,253	22,794,234	3,840,951	32,343,430	2,931,349
Oklahoma	26	12,960,487	9,773,758	2,819,977	323,250	1,653,371	11,750,389	3,152,489	20,535,156	1,759,133
Texas	77	33,523,450	23,399,294	8,711,728	491,348	3,239,777	35,968,235	8,647,029	45,781,863	7,378,056
Total		86,072,210	63,343,773	21,970,220	1,806,657	9,152,847	88,220,400	20,305,207	120,065,308	14,796,425
Increase, 1956 over 1955		6,134,323	3,153,365	995,123	(6,703)	135,576	16,172,867	3,896,013	11,887,835	3,142,898
Percent of increase, 1956 over 1955		7.7	5.24	4.8		1.50	22.45	23.74	10.10	27

[1] For the calendar year.
[2] Cumulative for the period ending Dec. 31, 1955, and Dec. 31, 1956.

NOTE.—All figures are taken from REA Bulletin 1-1: Annual Statistical Report, U. S. Department of Agriculture, Rural Electrification Administration, for the years ending Dec. 31, 1955, and Dec. 31, 1956 (the latest report available as of May 1, 1958).

APPENDIX TO STATEMENT OF FRANK M. WILKES BEFORE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS, MAY 29, 1958

In the late twenties, the Congress of the United States authorized investigation of practically every watershed in the entire country for multiple purpose development for flood control, navigation, irrigation, and incidental power. These reports were known as the 308 reports. When the area of the Southwest was investigated by the Army engineers at that time, they found that, due to the great variation in rainfall for power purposes, it was necessary to create storage reservoirs to carry the water required during dry spells. The cost of these reservoirs was so high that, without exception, the Army engineers found the rivers in the Southwest could not be developed for hydro power which could be sold in competition with steam power produced by companies already operating in the area.

In the early thirties, however, the Army engineers were authorized by the Congress to investigate these same watersheds, on the basis of the production, not of commercial power and energy, but, on the basis of producing a peculiar kind of power and energy; i. e., peaking power and peaking energy. On this basis, with a power installation in the dams to be operated at an annual load factor of from 12½ to 25 percent, practically all of the possible multiple-purpose projects, including power, proved up as being feasible. The reason for this is shown on my chart No. 1, which is the cost curve of producing power and energy in a typical steam plant. From this curve you can see that, if a steam plant can only supply a load for 100 hours during the month, the cost will be 17 mills; if it operates 300 hours per month, the cost will be 7 mills; while if it operates for 500 hours per month, the cost will be 5 mills.

As a typical example of producing power and energy from a multiple purpose project at different annual load factors, I refer you to my chart No. 2. The kilowatt-hours producible from any given dam is determined by the height of the dam and the amount of water obtainable during the year for operation back of the dam. In this hypothetical dam, I have taken 175,200,000 kilowatt-hours as the energy available. If this energy is sold on the basis of 100 percent load factor (a steady load every hour during the year) using the cost curve of chart No. 1, the power and energy would be worth only $710,400. If, however, the power and energy from this hypothetical dam is sold at a 25 percent annual load factor, it would be worth $1,790,400. If sold into a load factor of only 12½ percent, the power and energy would have a value of $3,230,400 per year.

On my chart No. 3, I place a cost of the hypothetical dam, including one 20,000 kilowatt unit, at $30 million. Allocating one-half of that amount, or $15 million, to power, it will be seen that the annual operating cost of such a dam would be $1,450,000 per year. Now, if we increase the cost of the power portion of the dam by $1 million for each additional 20,000 kilowatt unit, we find the annual charges will run from $1,450,000 for the 100 percent load use to $2,150,000 for the 12½ percent load factor. In other words, power and energy from multiple purpose projects in the Southwest will have to be sold into a load factor of not to exceed 25 percent if the dams are to pay out.

The annual load factor of cooperatives' customers is now running about 55 percent. The sale of power and energy by the Department of the Interior to this class of preferred customers for their entire power supply will evidently fail by approximately 50 percent of realizing the money required under the provisions of section 5 of the Flood Control Act of 1944 to pay out. The only place where a load having a load factor of 12½ to 25 percent is available is in the interconnected systems of the companies. My chart No. 4 shows a typical daily load curve of the Southwest area.

My chart No. 5 shows the annual load curve for the year 1957, with a peak load of all interconnected companies, including the peak load of cooperatives, of 5,030,000 kilowatts; a total consumption of 26,094,860,000 kilowatt-hours was produced. Of this, the portion that could be produced by stored hydro—that is, the peaking energy—would be 1,822,084,880 kilowatt-hours, and the kilowatts of demand that could be utilized into the systems of the companies would be in the order of 2,051,135 kilowatts. Since there is only some 700,000 kilowatts of capacity now in the multiple purpose hydro plants in the Southwest, this, of course, could readily be utilized and would require only some 500 million kilowatt-hours for the job.

Section 5 of the Flood Control Act gives preference to rural electric cooperatives. This preference, according to Mr. Ickes, Secretary of Department of the Interior at the time section 5 was adopted, is a preference to quantity and not to price. My chart No. 6 shows what would happen to a preference customer if such a customer would buy only his peaking requirements and peaking energy from the Government and would either produce the remaining energy required by him in his own plant, or purchase same from a private company. This chart shows that such a customer would pay for the Federal Government portion 10.9 mills. Such a customer could buy its long-hour-use power and energy from a private company for 5.8 mills, and would pay for the combination of hydro peaking energy and long-hour-use steam energy a total of 6.5 mills.

Chart No 7 shows the return to Federal Government by the sale of power and energy from multiple-purpose projects during fiscal 1954, on the basis of chart No. 6, for 426,000 kilowatts that was installed in the hydro dams that year. The plan I am suggesting that year would have paid the Federal Government $7,590,000. The General Accounting Office showed that the cost of all purposes in the Southwestern Power Administration for that year, with the exception of the operating expenses of Southwestern Power Administration's own organization, would have been $5,657,000, leaving a balance for that year which could have been realized of $1,933,000, from which the operating expenses of SPA (which would have been very small) could have been paid, and the resultant either applied to pay for other functions of the dam, or be used as a reduction to the rates charged for the power and energy. The General Accounting Office report for fiscal 1954, however, shows that actually that year the Southwestern Power Administration turned up with a loss of $3,464,866, which, of course, had to be made up by the taxpayers all over the United States.

The General Accounting Office report for fiscal 1955, on page 58, shows a loss by Southwestern Power Administration on the sale of $4,076,634 of hydro as $5,950,713.

The General Accounting Office report for fiscal 1956, on page 36, shows gross sales of $8,169,043, with a net operating loss of $2,000,112, and a net loss of $6,629,351.

The General Accounting Office report for fiscal 1957 is not yet available, but will surely show similar losses.

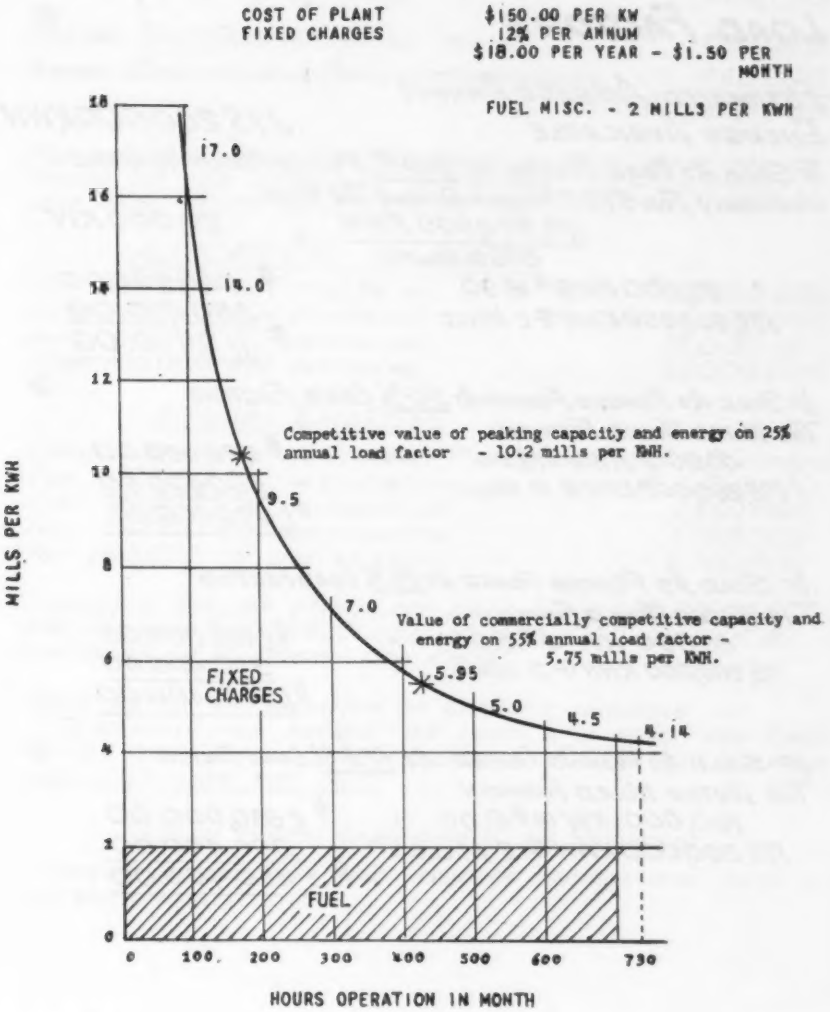
If power and energy from all multiple-purpose projects in the Southwest was sold by Southwestern Power Administration to preferred customers at the dam, at rates, which would cover all costs, these preferred customers could trade, and in several instances are now trading, these quantities of peaking power and peaking energy for commercial service at their load centers, at net rates of 7 mills or less per kilowatt-hour. Such action fulfills all requirements of section 5 of the Flood Control Act of December 22, 1944.

Thanking you for the opportunity of submitting this memorandum to you.

Sincerely yours,

FRANK M. WILKES.

COST OF PRODUCTION CURVE FOR TYPICAL STEAM PLANT
AT VARIOUS HOURS OF OPERATION PER MONTH



EXAMPLE OF EFFECT OF SALE OF HYDRO ENERGY IN A GIVEN DAM AT DIFFERENT LOAD FACTORS

ESTIMATED AVERAGE ANNUAL
ENERGY AVAILABLE 175,200,000 KWH

IF SOLD AT LOAD FACTOR OF 100% POWER WOULD BE USED UNIFORMLY FOR 8760 HOURS DURING THE YEAR

$$\frac{175,200,000 \text{ KWH}}{8760 \text{ HOURS}} = 20,000 \text{ KW}$$

20,000 KW @ $18.00	=	$ 360,000.00
175,200,000 KWH @ 2 MILLS		350,400.00
		$ 710,400.00

IF SOLD AS PEAKING POWER AT 50% LOAD FACTOR THE WATER WOULD FURNISH

40,000 KW @ $18.00	=	$ 720,000.00
175,200,000 KWH @ 2 MILLS	=	350,400.00
		$1,070,400.00

IF SOLD AS PEAKING POWER AT 25% LOAD FACTOR THE WATER WOULD FURNISH

80,000 KW @ $18.00	=	$1,440,000.00
175,200,000 KWH @ 2 MILLS	=	350,400.00
		$1,790,400.00

IF SOLD AS PEAKING POWER AT 12½% LOAD FACTOR THE WATER WOULD FURNISH

160,000 KW @ $18.00	=	$ 2,880,000.00
175,200,000 KWH @ 2 MILLS	=	350,400.00
		$ 3,230,400.00

BASE COST OF DAM TO PRODUCE 175,200,000 KWH OF AVAILABLE ELECTRICAL ENERGY WITH INSTALLATION OF 20,000 KW	$ 30,000,000
APPORTIONMENT TO POWER	15,000,000
ANNUAL FIXED CHARGES - POWER PORTION	$ 1,200,000
ANNUAL OPERATING AND ORDINARY MAINTENANCE	250,000
	$ 1,450,000

FOR EACH ADDITIONAL 20,000 KW UNIT - COST ALLOCATED TO POWER WILL BE INCREASED (ESTIMATED) BY $1,000,000 AND FIXED COSTS BY $100,000 PER YEAR.

ALLOCATIONS TO POWER

WITH 20,000 KW INSTALLED	$ 15,000,000
WITH 40,000 KW INSTALLED	16,000,000
WITH 80,000 KW INSTALLED	18,000,000
WITH 160,000 KW INSTALLED	22,000,000

ANNUAL CHARGES

(INCLUDING OPERATION, ORDINARY MAINTENANCE AND FIXED CHARGES)

FOR 20,000 KW INSTALLATION	$ 1,450,000
FOR 40,000 KW INSTALLATION	1,550,000
FOR 80,000 KW INSTALLATION	1,750,000
FOR 160,000 KW INSTALLATION	2,150,000

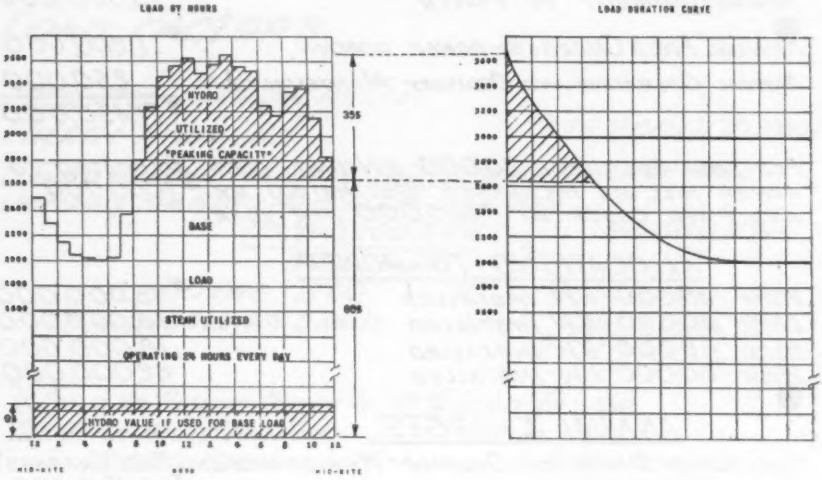
INDICATED SELLING PRICE PER KWH FROM AN 80,000 KW PLANT -- $1,790,400 FOR 175,200,000 KWH = $.01 (ONE CENT) OR 10 MILLS PER KWH.

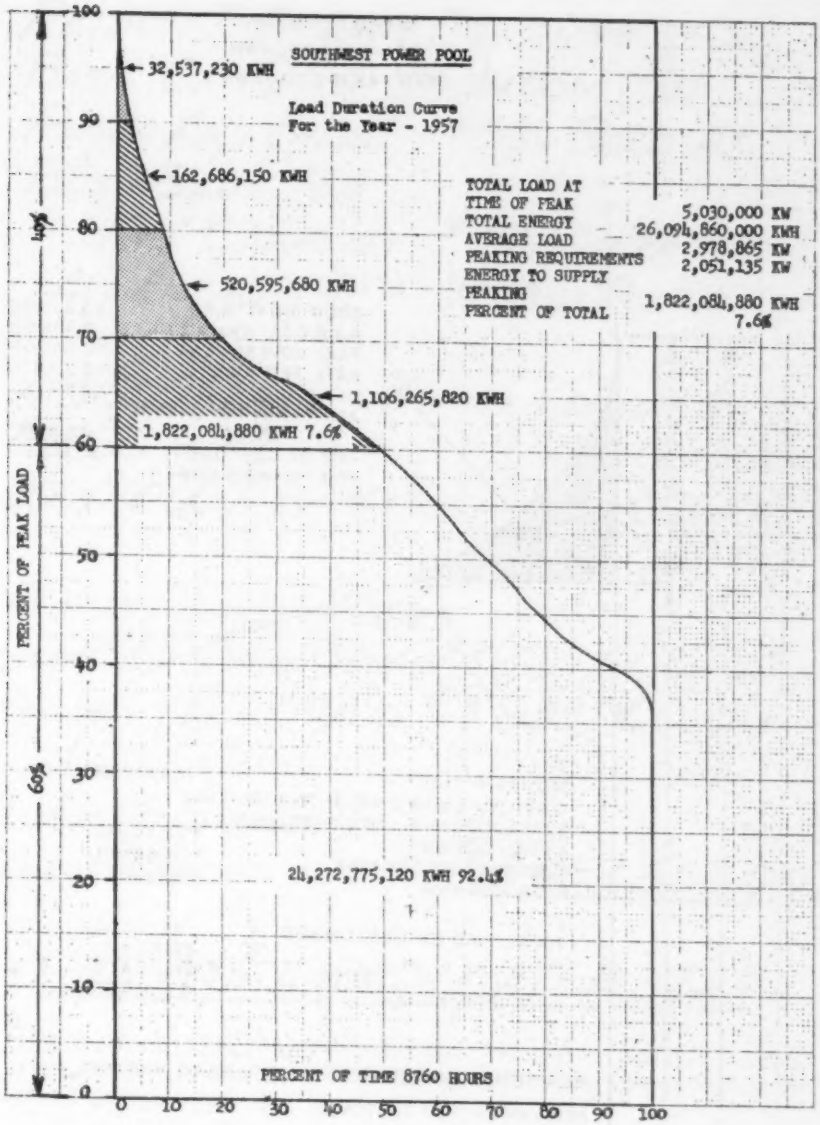
ONLY ON AN INSTALLATION OF CAPACITY SALABLE AT 25% ANNUAL LOAD FACTOR OR LESS AT A RATE PER KWH PER TOTAL OUTPUT WHICH WILL YIELD $1,750,000 OR MORE WILL THIS DAM PAY OUT.

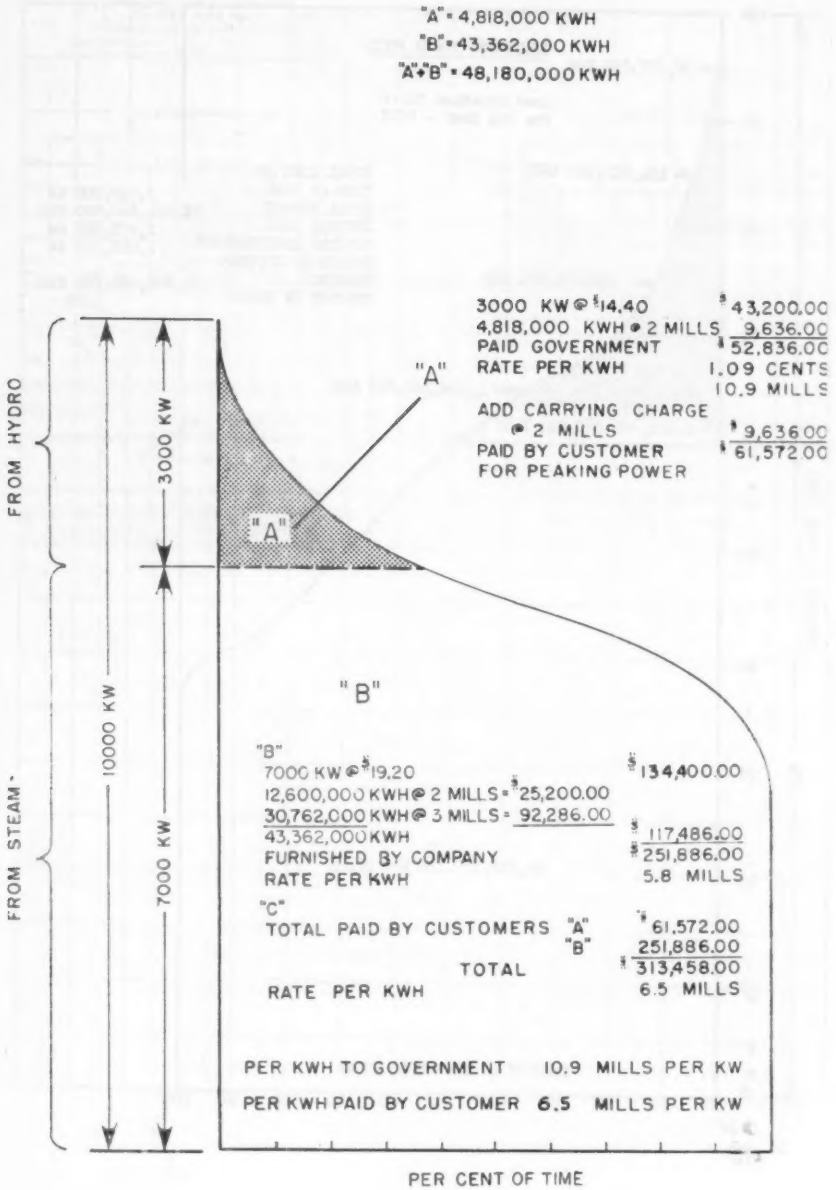
THIS IS TYPICAL OF ALL DAMS IN THE SOUTHWEST.

PRESENT METHODS CAN BUT PRODUCE ANNUAL AND EVER INCREASING DEFICITS.

IDEAL OPERATION OF COORDINATED
STEAM AND HYDRO PLANTS
TO SUPPLY PEAK DAY AUG. 18TH, 1953
HYDRO PLANTS ONLY OPERATE FOR PEAK HOURS WITH
ALL WATER STORED IN RESERVOIRS DURING OTHER HOURS




SOUTHWEST POWER POOL
Load Duration Curve
For the Year - 1957
32,537,230 KWH
162,686,150 KWH
520,595,680 KWH
1,106,265,820 KWH
1,822,084,880 KWH 7.6%
24,272,775,120 KWH 92.4%
TOTAL LOAD AT TIME OF PEAK 5,030,000 KW
TOTAL ENERGY 26,094,860,000 KWH
AVERAGE LOAD 2,978,865 KW
PEAKING REQUIREMENTS 2,051,135 KW
ENERGY TO SUPPLY PEAKING 1,822,084,880 KWH
PERCENT OF TOTAL 7.6%
40%
60%
PERCENT OF PEAK LOAD
PERCENT OF TIME 8760 HOURS
100
90
80
70
60
50
40
30
20
10
0
0 10 20 30 40 50 60 70 80 90 100



TYPICAL SUPPLY OF 10000 KW DEMAND PREFERRED CUSTOMER HAVING 55% ANNUAL LOAD FACTOR

RETURN TO FEDERAL GOVERNMENT ON BASIS OF 1954 OPERATION HAD POWER AND ENERGY BEEN SOLD AT BUS BARS FOR

KW CAPACITY $15.00 PER YEAR
ALL ENERGY AT 1½ MILLS PER KWH

426,000 KW (SEE PAGE 18, AUDIT REPORT) @ $15.00 PER YEAR = $6,390,000.00
800,000,000 KWH @ 1½ MILLS = $1,200,000.00
7,590,000.00

REQUIRED FOR ALL PURPOSES EXCEPT S.P.A. INTERNAL OPERATION $5,657,000.00
BALANCE FOR S.P.A. $1,933,000.00

LOSS AS SHOWN IN AUDIT REPORT $3,464,866.00

THIS WAS A BAD WATER YEAR

Mr. ASPINALL. The committee stands adjourned until further notice.

(Whereupon, at 11 a .m., the committee adjourned, subject to further notice.)

(The following material is included in the record on the order of the chairman:)

KANSAS CITY POWER & LIGHT CO.,
Kansas City, Mo., June 25, 1958.

HON. WAYNE N. ASPINALL,
Chairman, House Interior and Insular Affairs Subcommittee on Irrigation and Reclamation, House Office Building, Washington, D. C.

DEAR SIR: On May 29, 1958, Mr. Frank M. Wilkes, chairman of the board of the Southwestern Gas & Electric Co., presented a statement to your subcommittee opposing the provisions of H. R. 7362, known as the Trimble bill.

Kansas City Power & Light Co. wishes to be recorded as opposing H. R. 7362 and as concurring in Mr. Wilkes' criticisms of the bill. We are obliged, however, to register disagreement with certain views stated or implied in the final three paragraphs of Mr. Wilkes' statement. Those paragraphs could be con-

strued to mean that the taxpaying electric utility industry in the area is presently protected from the formation of a public power trust which would be unduly competitive with it and that the utility companies have no apprehension that the activities of the Southwestern Power Administration under secion 5 of the Flood Control Act of 1944 will erode their markets and destroy their investments.

Mr. Wilkes presumably did not have in mind the situation in central and western Missouri where SPA has already established a public power trust through its G. and T. contracts, under which it subsidizes steam plants and transmission lines of cooperatives and utilizes these facilities to supply power, at rates far below cost, to customers in the area. This description of that situation is amply substantiated by an analysis of the testimony of the Administrator of SPA before the Subcommittee of Public Works Appropriation, House of Representatives, on March 12, 1958 (transcript 37 to 95, inclusive), and earlier testimony.

In short, Kansas City Power & Light Co. goes beyond Mr. Wilkes' position in its opposition to H. R. 7362. Some features of that bill would make a bad situation worse by encouraging further subsidies in a marketing policy which is already unduly competitive with established private power utilities.

Yours very truly,

W. L. PORTER, *Vice President.*

JACKSON, MISS., *June 30, 1958.*

Hon. WAYNE N. ASPINALL,
Chairman, Subcommittee on Irrigation and Reclamation of Committee on Interior and Insular Affairs, House of Representatives, Washington, D. C.

DEAR MR. ASPINALL: The undersigned private electric utility company operating in the area of the United States where electric power and energy produced at Federal reservoir projects is or may be marketed, do by these presents evidence our full and complete agreement with the written statement submitted by Mr. Frank M. Wilkes to your subcommittee on the morning of May 29, 1958, immediately prior to his tragic death, with the request that this statement be included as a part of the record of H. R. 7362 as evidence of the fact that we are completely in accord with Mr. Wilkes' statement and opposed to said bill.

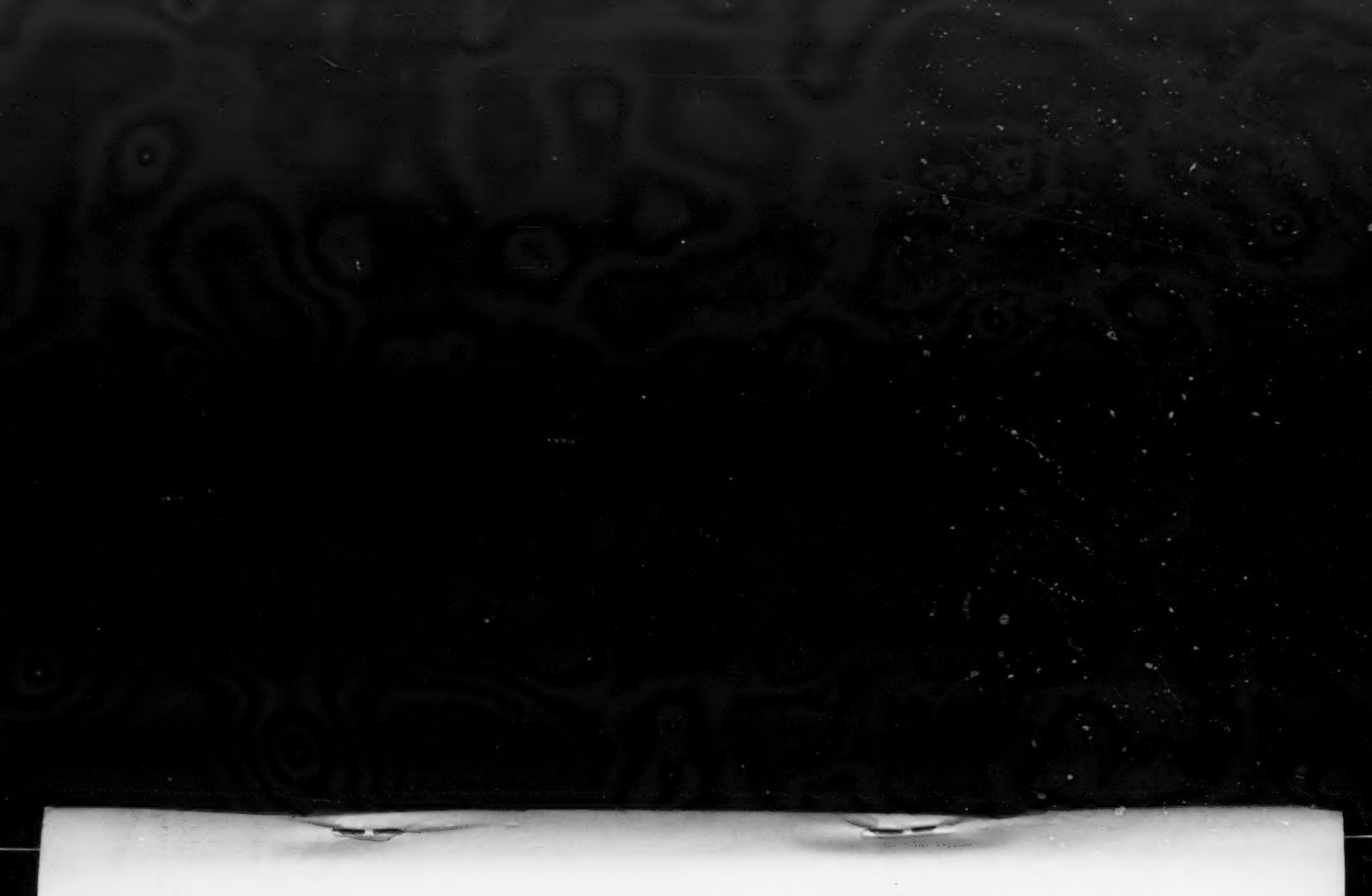
Respectfully submitted.

MISSISSIPPI POWER & LIGHT CO.,
By R. B. WILSON, *President.*

Hon. WAYNE N. ASPINALL,
Chairman, Subcommittee on Irrigation and Reclamation of the Committee on Interior and Insular Affairs, House of Representatives, Washington, D, C.:

We, the undersigned private electric utility companies operating in areas of the United States where electric power and energy produced at Federal reservoir projects is or may be marketed, do by these presents evidence our full and complete agreement with the written statement submitted by Mr. Frank M. Wilkes to your subcommittee on the morning of May 29, 1958, immediately prior to his tragic death.

We request that this instrument be included as part of the record on H. R. 7362 as evidence of the fact that we are completely in accord with Mr. Wilkes' statement and are opposed to said bill.

Respectfully submitted.

Arkansas Power & Light Co., by R. E. Ritchie, President; Central Louisiana Electric Co., Inc., by F. H. Coughlin, President; Gulf States Utilities Co., by Roy S. Nelson, President; Louisiana Power & Light Co., by R. P. Quinn, President; New Orleans Public Service, Inc., by G. S. Smithwick, President; the Empire District Electric Co., by D. C. McKee, President; Arkansas-Missouri Power Co., by Charles Czisehin, President; Missouri Utilities Co., by H. B. Newman, President; Missouri Power & Light Co., by Davis Benning, President; Missouri Public Service Co., by Carl Johnson, Vice President; St. Joseph Light & Power Co., by D. A. Merifield, President; Kansas Gas & Electric Co., by G. W. Evans, President; Oklahoma Gas & Electric Co., by Herbert L. Branan, Vice President.